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The Small Business Adviser

How A Business Plan Can Help Win A Loan

Directory Assistance Need Not Be Costly

How Estate Taxes Hurt Small Firms

Ties That Bind

Anna Johnson, president of Super Embroidery in Phoenix, looks for the "tiny things" that keep customers coming back.

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PHOTO: ©KHOI TON

For bicycle-store owner *Chris Zane of Branford, Conn., as for many business people, the key to success is to create and maintain long-term ties with customers—appreciating their value in terms of relationships, not merely transactions. Cover Story, Page 12.*

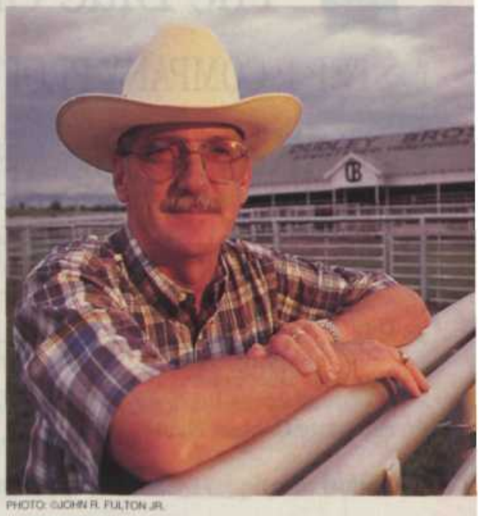
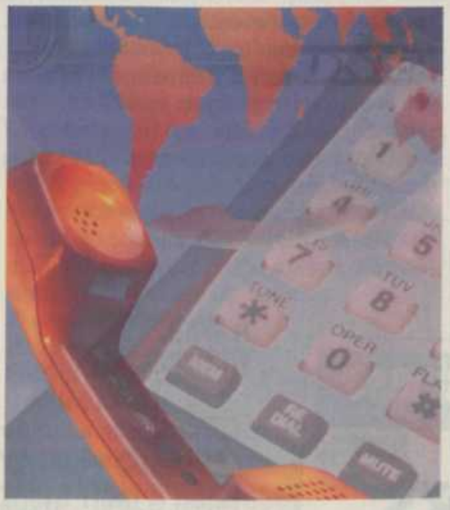


PHOTO: ©JOHN R. FULTON JR.

Cattle rancher *John Dudley of Comanche, Texas, like many family-firm owners, has paid heavy estate taxes. Taxation, Page 20.*

VOL. 85, NO. 8

Editor's Note



Phone-number *searching with Internet services can be less costly than conventional directory assistance. Managing, Page 41.*

DEPARTMENTS

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Building Customer Loyalty

PHOTO: T. MICHAEL KEZA

We usually know why we return to one business rather than another. Generally, it has to do with service. But what makes a business' service so special that it keeps us coming back, even if the establishment doesn't offer the lowest price?

In reporting "Ties That Bind," this month's cover story, Senior Editor Mike Barrier sought the answer not from repeat customers but from entrepreneurs who have proved adept at winning business for the long term.

Mike is shown in the photo above at one of his favorite neighborhood establishments, Sonny's Cleaners, on Gibbon Street in the Old Town section of Alexandria, Va. Belynda Wimbish, the manager for 14 years, is one reason Mike returns. She's not only "friendly and cheerful, but also very knowledgeable. Sonny's does excellent work, but if there's a problem that it can't solve, Belynda explains clearly why."

PHOTO: ©BART BARTHOLOMEW

Knowledge is one of many ingredients of good service. In Mike's story, beginning on Page 12, you'll discover other ways, too, in which entrepreneurs have built a loyal clientele.

Although our Making It section, starting on Page 56, has been shifted to a new location in the magazine, it continues to offer profiles of entrepreneurs on their way up.

Among the business owners featured this month are Marty and Helen Shih (in the photo at left), a brother and sister who came to the United States from Taiwan and have built an unusual service business. We hope our readers draw insight from the Shihs' experiences and those of the other entrepreneurs we feature in this section and throughout the magazine.

Mary Y. McElveen

Mary Y. McElveen
Editor

Nation's Business

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Letters

Unions Pour On The 'Salt' And Leave A Bad Taste

Your June cover story, "Labor's New Assault," was extremely interesting.

Since 1992, my company has been victimized by a vicious "salting" attack by the local electrical union. Over the past five years I have spent more than $75,000 on attorneys' fees alone. While my company's fate is pending a decision of a federal appeals court, the back pay and interest owed is approaching $1 million.

As the nonunion contractors in Las Vegas learned, a union will do anything it can to bring a National Labor Relations Board charge against a company being salted. The unions' ranks are schooled in just how to bend the law to the breaking point and thereby either force a target company's employees to join the union or put the company out of business.

One point that your story missed—and that the Las Vegas companies will soon learn—is that the NLRB, in its present makeup, is nothing more than a branch of the AFL-CIO. Business owners in general, and construction-company owners in particular, will continue to suffer discrimination until this is changed and equal representation of both labor and management is appointed to the board.

Jack L. Manno
President
Manno Electric, Inc.
Baton Rouge, La.

The Economic Viewpoint

I read with interest and dismay "Labor's New Assault."

Where are the economists amid all of labor's efforts? Labor unions have been the downfall of the U.S. economy, not its savior. Largely because of labor efforts, the cost of automobiles has increased tenfold since the mid-1960s—and this is only one example.

Yes, the American public has always wanted to be paid more, but it fails to realize that increased wages are compounded, just like interest, at each level of production, resulting in a net loss of buying power.

Wake up, America! The adage "The more you make, the more you spend" does not refer to an increase in the quality of lifestyle, but to the increased cost of the same lifestyle.

Jennifer Reed, Owner
Creative Business Solutions
Burlington, Colo.

A Web Of Hypocrisy

Regarding "Labor's New Assault," I find it very hypocritical of the AFL-CIO to post on a World Wide Web site the salaries of CEOs of U.S. companies while failing to post the salaries of union management.

The union's members just might be interested in knowing how much of their dues goes toward paying management's salaries and benefits.

I paid union dues for nearly 10 years, and I was appalled at the corruption and pillaging that my dues supported.

Scott E. Pollock, CPA
Aberdeen, Wash.

No Assault In Sight

As head of a unionized coat-manufacturing plant, I read here and there of labor's new "assault," yet I fail to see it in practice. At least not in this industry.

Newark, N.J., is filled with nonunion clothing factories, as is the entire state of New Jersey. I see no attempt by any union to organize these plants.

Ralph Shomer
President
The Young American Clothing Co., Inc.
Newark, N.J.

Credit Unions And Banks: Apples And Oranges

I was interested to read "Banker Counterpunches Against Credit Unions" [Letters, July].

Credit unions do not operate with "a 20 to 30 percent cost advantage." Credit

unions' costs—for automated teller machines, brick and mortar, and other goods and services—are very much the same as those of banks. The compensation of credit-union executives is much less than the compensation of bank executives, but that is because credit-union executives do not have the bankers' for-profit motivation.

As for taxes, credit unions do not pay taxes because they are not-for-profit.

Credit unions and banks are very different organizations; their structures clearly are not the same. In the final analysis, if the banks' attacks succeed in prohibiting credit unions from being credit unions, the consumer would be the big loser.

Thomas J. Powers Jr.
President and CEO
Central Florida Educators
Orlando, Fla.

Airline's Seats Offer More Than A Massage

Your excellent article "Getting To Sleep Away From Home" [June] provided helpful insight for those who travel extensively on business.

One point of clarification, however: The new United Airlines Connoisseur Class seats the article mentioned do not massage the back; rather, they provide a new, medically tested system of "active lumbar cycling."

United's *new seats: a "lumbar-cycling" experience.*

A person's back needs movement to circulate vital, health-building fluids; that's why walking or moving around helps prevent stiffness. My company's patented BackCycler moves the spine in and out on a gentle, adjustable, 1½- to two-minute cycle, circulating essential fluids that cushion the discs and vertebrae.

Developed by a doctor at the University of Vermont, this innovative device is unique, which is one reason why United selected it for the airline's new seating system. As a supplier to United, my company is proud of its contributions.

William G. Smith, President and CEO
Ergomedics, Inc.
Winooski, Vt.

Private Equity Capital Can Have Advantages

"Has Your Company Outgrown Its Bank?" [Managing Your Small Business, July] rightly cites private placement of debt as one source of financing for small companies, but the article makes only scant mention of private equity capital.

Private equity is readily available from many investment partnerships, and for many entrepreneurs it offers significant advantages over debt.

For example, there are no fixed, obligatory interest and principal payments, so a firm can use the revenues it generates to grow. Private equity partners often have relevant business experience that will help a firm prosper. And while a lender just wants to be repaid, an equity investor's concern is the firm's long-term success.

Of course, many entrepreneurs don't want to give up a stake in their business. But I suggest that it's better to own 50 percent of a $60 million company than 100 percent of a $10 million company.

John K. Castle, Chairman
Castle Harlan, Inc.
New York City

Checking The Ingredients Of A Balanced Budget

I take exception to two of the reasons you cite in your May editorial, "The Many Failings Of The Clinton Budget," to support the claim that Clinton's 1997-98 budget and its projections for the next five years cannot achieve a balanced budget by 2002.

One reason cited is that the Clinton budget doesn't address the growth in entitlement spending; the other is that it doesn't provide sufficient tax reduction. The first step would reduce government spending and the second would reduce government income, but neither is a requirement for budget balance.

The Clinton budget may not be one that everybody likes, but it can still balance.

Marlyn G. Schepers
Principal Structural Engineer
Stanley Consultants, Inc.
Muscatine, Iowa

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ENTREPRENEUR'S NOTEBOOK

A Creative Way To Avoid Layoffs

By Ted Castle

This past March, for the first time in my company's 12-year history, we had layoffs.

This is not to say that there haven't been times when Rhino Foods, Inc., my specialty dessert and ice-cream company, hasn't had more workers than work. But in the past we were able to address this through a creative solution that enabled us to adjust for the seasonal nature of our business and eliminated the expense and trouble of having to let workers go and then rehire them when business picked up.

Layoffs such as we experienced—which reduced our staff from about 80 to 60—are inevitable during times when you can't foresee a rebound. But some slowdowns are as much a part of a normal business cycle as growth is, and if you recognize this you can take steps to care for workers and to retain the investments of time, effort, and money you made in hiring them.

PHOTO: ©GEORGE ROBINSON—BLACK STAR

Workers are given *their just deserts through an employee-exchange program at Ted Castle's company.*

We took such a step five years ago when we created an employee-exchange program (EEP), in which workers are placed in temporary jobs with other companies for a set period—usually not longer than six weeks—during slowdowns. The program, which my company has used three times, allows us to provide improved job stability and to reduce our payroll when necessary—but to still have trained workers available when needed.

Several components are essential to the success of such a program:

Find the right partners. Look for like-minded companies with similar business philosophies, policies, and practices—but not companies in the same business. The best partners can easily train workers to fit their business's needs; they experience seasonal fluctuations in staffing; they are located close to your firm; and they have similar pay rates.

Once potential partners have been identified, discuss and put in writing the specifics of the program, including the duration of the temporary jobs, the rate of pay, the workweek, and training.

Establish guidelines. All our EEP participants leave their overstaffed departments voluntarily, but they must meet certain criteria. Employees must have been with Rhino for more than 90 days and be in good standing; they must be available to work the entire temporary assignment; they must have transportation; and they must agree to abide by the principles of our company and those of the partner.

Before beginning an assignment, qualified employees are interviewed by the other company, giving the partner a say in whom it will hire and allowing our employees to see where they would be working. This also helps the companies gauge the other firm's commitment to making the program work.

Take care of business. Our premise for creating the EEP was that well-trained, reliable employees are valuable and that managing them effectively helps our company. To that end, we continue many of our employee responsibilities during the exchange period.

That means making up any difference in pay; handling payroll payments (partner firms are billed); maintaining unemployment, worker's compensation, and health insurance; reviewing employee evaluations; and consulting supervisors before any disciplinary action.

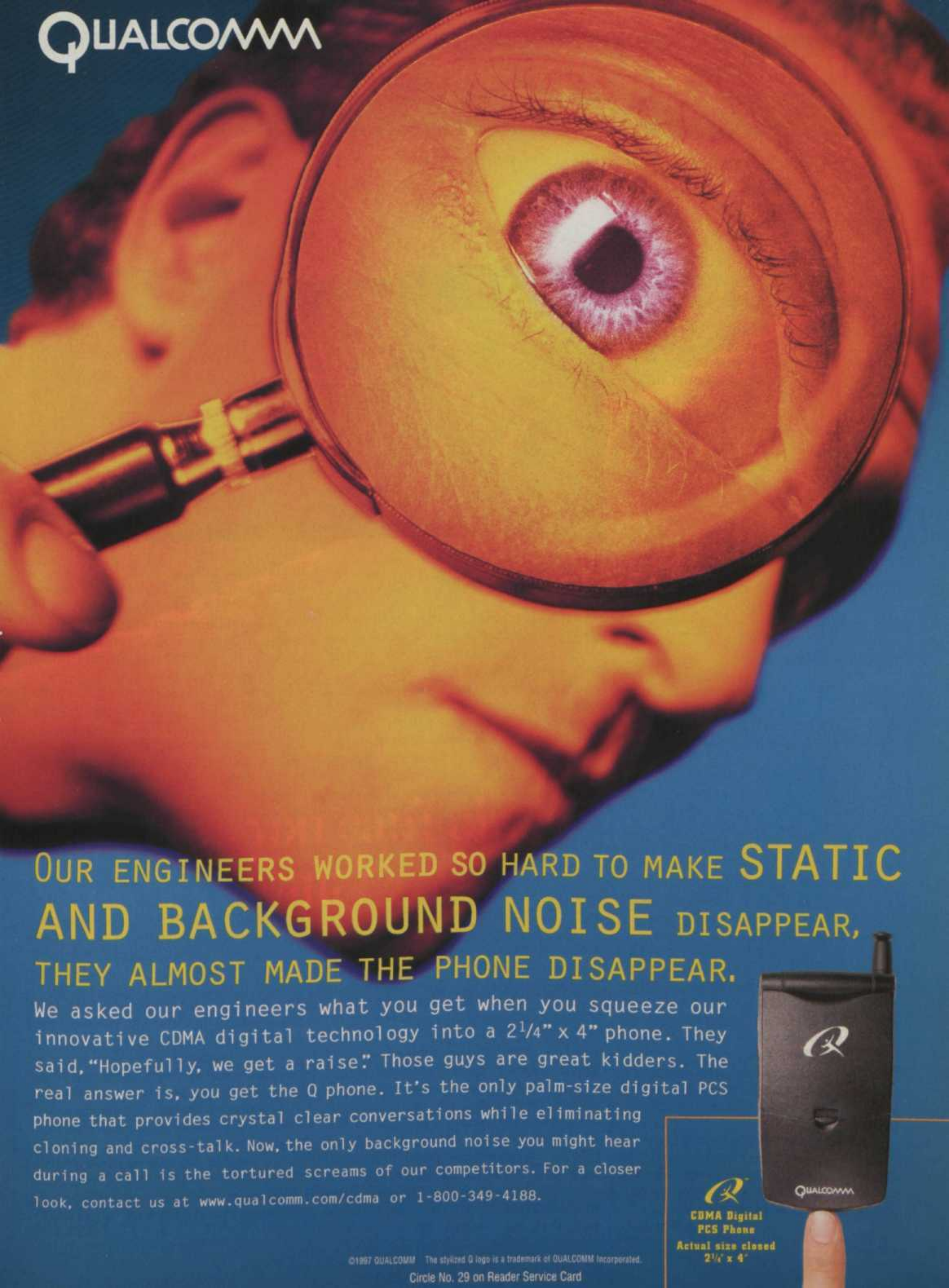
Instill a climate of trust. In an environment of open, effective communication, workers know the company's business situation and are assured of their value. In our case, they also know their jobs will be waiting for them after an outplacement.

When creative solutions like an EEP aren't enough, employees must know why layoffs are needed and how the remaining workers will be affected. Likewise, their suggestions on how to turn this negative into a positive must be heard and, if possible, acted upon. NB

Ted Castle is CEO of Rhino Foods, Inc., in Burlington, Vt. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

A worker-exchange program among like-minded firms can help during the slowdowns associated with seasonal businesses.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Dateline: Washington

Business news in brief from the nation's capital

TAXES

Breaks For Small Business At Stake In Tax Negotiations

Small businesses have a great deal at stake in the horse-trading over tax legislation under way at press time among key representatives and senators and Clinton administration officials.

The tax bills passed recently by the House and Senate would reduce some federal taxes by a total of $135 billion over five years while increasing others, mostly those on airline tickets, by $50 billion to $58 billion over the same period.

Among the small-business provisions:

■ **Capital gains:** The House and Senate bills would reduce the top individual rates from the current 28 percent to 20 percent. The House bill would reduce the top corporate rate from 35 percent to 30 percent by 2000 and allow investors to lower their tax by indexing the gains for inflation.

■ **Estate taxes:** The House and Senate bills would increase the exemption from federal estate taxes from the current $600,000 to $1 million; the House bill would accomplish this over 10 years, the Senate's over nine. The Senate bill includes a provision for an additional $1 million exemption for family businesses and farms, beginning in 1998. (For more on this subject, see the story on Page 20.)

■ **Electronic tax filing:** Both bills would provide another delay of penalties for small businesses that don't pay their income taxes electronically. The current suspension expires Dec. 31, 1997. The House bill would extend the suspension through Dec. 31, 1998, the Senate's through June 30, 1998.

■ **Health-care deduction:** Only the Senate bill would increase the tax deduction for health insurance for the self-employed to 100 percent by 2007. Under current law the deduction, now 40 percent, will rise to 80 percent by 2006.

■ **Home-office deduction:** Only the House bill contains an expansion of this deduction to include people whose home office is used for a business's administrative activities.

■ **Independent contractors:** Only the House bill offers a short alternative to the 20-part Internal Revenue Service test used to determine whether a worker is an employee or an independent contractor.

—James Worsham

LABOR

PHOTO: AFFILIATED GRAPHICS

The AFL-CIO's Robert A. Georgine, left, calls the Clinton memorandum "a symbolic demonstration."

Charles Hawkins, right, of Associated Builders and Contractors says his group will challenge the memorandum.

Verdict Is Still Out On Union-Only Effort

President Clinton has narrowed the scope of his attempt to get federal agencies to use union-only labor agreements for government construction projects.

In a June 5 memorandum, Clinton said agencies should "consider" project labor agreements (PLAs) for federal projects with budgets of more than $5 million.

U.S. Chamber of Commerce officials, however, note that because agencies have until October to develop procedures and criteria for considering PLAs, it is unclear how each agency will do so and whether the results could be formal regulations.

Vice President Al Gore told the AFL-CIO in February that Clinton would issue an executive order directing agencies to consider PLAs for all federal construction projects, regardless of budget size. But the White House backed off and proposed a weaker memorandum after Senate Republicans held up the nomination of Alexis Herman to be Secretary of Labor.

Under a PLA, all union negotiating on working conditions and wages for a project is done in advance and all contractors and workers, including those not in a union, have to agree to it.

Robert A. Georgine, president of the Building and Construction Trades Department of the AFL-CIO, hailed the Clinton memorandum. Noting that it did not change the authority of federal agencies to use PLAs, he nonetheless called it "a symbolic demonstration of this president's commitment to protecting workers' rights."

But Charles Hawkins, executive vice president of the Associated Builders and Contractors Inc., a trade group, said the memorandum is "a big win [for labor] any way you cut it. ... We are obviously disappointed the president feels he has to do anything to help organized labor." Hawkins said his group plans a court challenge.

—James Worsham

POSTAL COSTS

Rate Increases Sought

The U.S. Postal Service announced July 1 that it will seek approval to boost a variety of the rates it charges for commercial mail such as publications and advertisements and to raise the price of a first-class stamp to 33 cents. However, Americans could mail bills for 30 cents using prepaid envelopes supplied by participating businesses.

On average, rates for all mail users would increase 4.5 percent. Postal officials said that on average, priority-package rates would increase 6.7 percent, local newspapers would cost 3.5 percent more to mail, and magazine rates would rise 5.4 percent. Fees for advertising mail and post-office boxes also would go up.

If approved by the independent U.S. Postal Rate Commission, the changes—which could not take effect until next spring—would generate an additional $2.4 billion a year for the Postal Service. Postal officials pledged not to seek further across-the-board rate increases for two years.

—Steve Bates

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Managing Your Small Business

Getting publicity mileage from company trucks; cultivating technicians' customer skills; being honest with suppliers.

By Roberta Maynard

ADVERTISING

Ads On Wheels Send A Message In Traffic

A desire to break through advertising clutter drove the owners of a Chicago party-supplies rental company to use their two trucks as mobile billboards.

Kathy Ruff and Martha Olson, owners of Tablescapes Party Rental, worked with a graphics company and a photographer to create high-quality images that run the length of their 18-foot delivery trucks. Each truck is fitted with the photo of a table setting—one depicting an elegant dinner, the other an informal summertime theme.

It cost $3,500 per truck to create and attach the material, which resembles contact paper, but the attention that the ads have generated was worth the price, says Ruff, who handles the company's marketing and sales. Passengers in taxis downtown have been known to lean out the window to talk with the trucks' drivers.

"The response has been amazing," says Ruff. "Over 80 percent of the phone inquiries we get come from people who have seen the trucks. They really do have an impact on sales. And it's been a wonderful way to establish an image."

The bold displays have helped differentiate the company from its many local competitors. The new look has been so effective, Ruff says, that the partners are buying a third truck that will be similarly decorated.

"This is a form of advertising that works for anyone who has trucks on the road and wants to have visual impact that ties in with the business," says Ruff. Firms considering such advertising, she cautions, should expect higher repair costs if a truck is damaged and sections of the image have to be replaced. She adds that vehicles should be kept clean to maximize the images' impact. ■

PHOTO: ©ROARK JOHNSON

Eye-catching images *on the sides of company trucks have Tablescapes Party Rental owners Martha Olson, left, and Kathy Ruff riding high.*

CUSTOMER SERVICE

Are Your Technicians Customer-Friendly?

The notion of "service with a smile" has acquired a broader meaning for many companies whose service technicians regularly deal with customers by phone or in person.

Although technical proficiency and a pleasant manner with customers may have been enough in the past, "technical people are being asked to do a better job of learning what the customer wants," says service-training expert Grace G. Major. She is president of Sigma International, Inc., a consulting firm in Fairfax, Va., that assesses the performance of service staffs and provides training.

More companies are asking their technicians to fill gaps in sales efforts and to repair communication breakdowns, Major says. "Technicians are where the tires meet the road. They may be able to turn around a situation and help retain customers or keep them satisfied."

Some companies are cultivating their technicians' abilities to clarify customer needs and identify and capitalize on sales opportunities. Major says that some managers are giving technicians greater authority to do what it takes to keep customers happy, such as occasionally not charging for a service call or a part.

She says the trend appears to be driven by companies' need to optimize their human resources and by the high cost of redoing work—that is, making repeat calls or visits to customers for the same problem.

Firms with a high level of customer dissatisfaction or with a high volume of customers calling to ask for managers to resolve technical problems might consider broadening technicians' responsibilities.

Major advises companies to decide first how much customer interaction they want from technicians and to make clear the level that is expected of them. This should be addressed as early as the hiring process.

Many technicians are not people-oriented, she says, and explaining in the help-wanted ad the customer-relations aspects of the job will eliminate people who are uncomfortable with such duties. In interviews, supervisors can gauge candidates' ability to deal with customers by describing particular customer scenarios and asking job prospects how they would handle the circumstances.

(For more on customer service, see "Ties That Bind," Page 12.) ■

THE WORKPLACE

Handling Drug Problems On The Front Line

Though drug and alcohol abuse in the workplace can seriously jeopardize productivity and safety, managers sometimes have difficulty finding ways to address it. So the Chicagoland Chamber of Commerce created a program to help small and mid-size companies achieve a drug-free workplace. Companies may attend seminars and may later opt to pursue a more rigorous certification program.

Since the program began last September, representatives of 140 companies have attended the seminars. Among the most significant topics discussed is the importance of acting on employee drug problems instead of hoping they'll go away.

"Time and again, supervisors don't want to address the issue, often because they just don't know what to do," says Bill Heffernan, a partner with Employee Resources System, an employee-assistance program in Chicago, and chairman of the chamber's drug-free program. "Or sometimes, the front-line supervisor does the hard work—takes a [disciplinary] action—and someone up the chain doesn't support it. If a supervisor believes that someone has a problem, they have to know that the owner or manager will back them up."

In addition, supervisors must be trained to document possible indications of drug use—habitual tardiness or absenteeism, for example—to keep the company on solid legal ground in case of litigation.

"When supervisors cover up or choose to ignore the problem, they're sending a message about what's acceptable in the workplace," says Heffernan. Supervisors may thus be inclined to create make-work for an impaired worker; a skilled tradesman, for instance, may be assigned to sweeping floors for an afternoon.

A conspicuously posted policy will put all employees on notice that the company has taken a stand on the issue. If someone comes to work impaired, a supervisor can act immediately, preferably with a manager present as a witness, Heffernan says. For more information on creating a drug-free workplace, contact the Chicagoland Chamber (312-494-6700) or a local or state agency that handles workplace issues. ■

PURCHASING

The Nuts And Bolts Of Supplier Relations

David Brent got an on-the-job lesson in supplier relations soon after he took over three years ago as president of The Nutty Bavarian, a snack retailer based in Lake Mary, Fla.

The company sells cinnamon-glazed almonds and pecans from kiosks, and it was expanding rapidly when Brent took over. But about one-third of the locations were unprofitable, which created cash-flow problems. The company soon found it owed more than $100,000 to its nut suppliers. To make matters worse, the previous management had tended to avoid suppliers when problems arose.

PHOTO: ©PHELAN M. EBENHACK—MERCURY PICTURES

Being forthright *with suppliers helped snack retailer David Brent overcome inherited financial problems.*

Brent gambled that being straightforward with suppliers, though it might be unpleasant, was the approach most likely to keep him in business. "I went to my suppliers to ask for longer credit terms and worked out a payment plan that we could meet," he says. For example, a supplier to whom he owed $50,000 let him pay $10,000 every two weeks as long as he continued to make payments and to order nuts.

Meanwhile, Brent closed some carts that weren't profitable, relocated others, and put expansion on hold. It took more than a year, but eventually he paid off all his overdue debts.

"Instead of lying and saying the check's in the mail, tell suppliers what's happening and what you propose to do about it," he says. "If you have a note that's due, you call them, instead of waiting for them to call you. They appreciate that. Business people are afraid to make that phone call; they want to make it sound rosy. But I learned that if you owe them, suppliers are eager to find a way to work with you."

Brent maintains close relationships with suppliers' collection people. He says he always pays when payments are due, never early or late. "I want to let them know that I'm consistent, so if trouble ever arises, they'll be willing to work with me again. When you actually do what you say you will, that separates you from 90 percent of the others they work with."

He says the company doesn't owe anyone more than $30,000—a month's supply of nuts—and he expects revenues for the eight-year-old company to reach $4 million this year.

You can learn more about effective ways to work with suppliers from the National Association of Purchasing Management in Tempe, Ariz. For a free copy of the trade group's standards for ethical purchasing practices, call (602) 752-6276.

Also, *Purchasing and Supply Management* (McGraw-Hill, $72), by Donald W. Dobler and David N. Burt, is a comprehensive source of information about aspects of purchasing. NB

NB TIPS

Appraising The Situation

Do you struggle with the task of writing employee appraisals? *Effective Phrases for Performance Appraisals*, by James E. Neal Jr., provides more than 2,000 phrases listed under 50 key categories (such as knowledge, selling skills, and potential) to help managers find the right words to describe each employee's performance.

The book is available for $11.95 at bookstores or by calling Neal Publications, Inc., at (419) 874-4787.

Avoid The Rush

If the last quarter of the year is a hectic time for your business, reduce the year-end pressure by putting someone to work now ordering holiday cards and lining up gifts for clients. ■

READER INPUT

Let's Hear From You

What is your most frustrating management problem? Tell us about it. Send your fax to Managing Your Small Business at (202) 463-3102, or contact us through our CompuServe address: 76436,1735.

COVER STORY

Ties That Bind

By Michael Barrier

PHOTO: OKHOI TON

As part of his strategy *to build long-term relationships, Chris Zane, left, owner of a Branford, Conn., bicycle shop, offers customers such as Scott Roth free lifetime service.*

Zane's Cycles, an independent bicycle retailer in Branford, Conn., east of New Haven, had revenues last year of just under $1.5 million—much higher than most such shops. Owner Chris Zane expects that revenues will pass $2 million this year.

What is Zane doing right? There's a clue in one small thing that he does—and especially in the attitude behind it. He offers free coffee and soft drinks to waiting customers. "A lot of our customers now come in on Saturday mornings to have coffee, hang out for 15 or 20 minutes, read the paper, and leave," says Zane.

Where Zane differs from many business people is that he thinks of such customers in terms of relationships, not transactions.

The transaction-minded business person might look at the Saturday-morning coffee drinkers and see only freeloaders; Zane sees people who have bought from him in the past and will buy from him again.

He does much more to encourage long-term relationships than offer free coffee; he offers free lifetime service for each bike purchased at the store. He does that not to sell a bike, he says, but to get the purchasers of bikes to send their friends to Zane's, too. As Zane knows well, they'll do that only if they're satisfied with the way the promise of free service is delivered.

If flaws turn up in a product, Zane says, "we stop carrying it pretty quickly. Since we offer a lifetime warranty, we get a lot of feedback on products that we sell if they're not great quality."

Zane's enhances its reputation for quality products with this practice; and because quality is so emphatically guaranteed, price recedes as an issue, he says. "Our customers don't come in and say, 'Well, is this really the best for the money?'"

In short, a cascade of beneficial effects can result when a small business cultivates customer loyalty in the way that Zane's Cycles does. That pattern holds in all kinds of small businesses—those that sell to other businesses as well as those that sell to consumers.

At such small businesses, the long-term customer relationships can bear a striking resemblance to a successful marriage; they are marked by the same sort of respect, trust, and willingness to overlook the occasional blunder. As with a marriage, though, success is achieved not just through good intentions but also through hard work and close attention to the other party's needs.

Here are some rules of thumb that can help you achieve happy unions with your customers:

Communicate constantly and clearly. The first rule for married couples should be the first rule for small businesses, too. It's one that they often can obey more easily than larger businesses can because there is so much informal contact with customers. That is most obviously the case in a retail setting, but the benefits of business-to-business communication can be just as great.

Gary and Jeanie Clinton, the owners of United Design Corp. in Noble, Okla., were students at the University of Oklahoma when they started their business in 1973 as a backyard stone-pottery operation. They sold at craft shows initially and then through a few local shops.

"When we began," Gary Clinton says, "we were artists—we thought, we'll make

Wise small-business people aim for long-term relationships that benefit both buyer and seller.

these things and hope they like them. It was slow until we figured out that we really did need to listen to customers more closely. It was like a light bulb going on: We needed to put ourselves in their shoes and think about their point of view on almost everything."

So attentively did the Clintons listen that United Design, which makes figurines from a processed stone cast in rubber molds, now has about 25,000 active retailing customers—mail-order companies, department stores, gift shops, stationery stores.

"We listen to what they want," Gary Clinton says. "We send survey forms out every year to all of our customers and ask them to suggest things as well as answer specific questions. We ask them to let us help them be more successful."

Even the best efforts at communication can fail, however, so it's all the more important to keep up the effort.

At Enterprise Bank and Trust Co. in Lowell, Mass., CEO George L. Duncan says, "We're really close to the marketplace, not only because of our small size"—five branches and $300 million in assets—"but because we have a lot" of employees taking part in community activities. The bank asks focus groups about its products and services, uses "mystery shoppers" to test its performance, and hires outside organizations to conduct surveys.

Even so, Duncan says, "I got caught flat on something recently." The bank offered a bundled account that included a $2,500 line of credit, but it turned out that many potential customers for the account at one branch "didn't want the temptation of having that available."

The bank was slow in picking up on the reason for customers' resistance, although it finally responded by letting depositors waive the automatic line of credit if they wished.

"I really fell asleep on that one," Duncan says. "You can get some real surprises, just when you think you know what you're doing."

Keep in touch between sales.

Loyalty needn't suffer even when infrequent big-ticket purchases are involved, says Frederick F. Reichheld, a Boston-based consultant with Bain & Co. and the author of *The Loyalty Effect* (Harvard Business School Press, $24.95).

True, "if there's no interaction for years and years in between purchases, it's hard to earn loyalty." Nonetheless, "most big-ticket purchases have a lot of service and financing associated with them," Reichheld says, and a business can take advantage of that interaction by "seeking opportunities to create value for the customer."

Holley Dodge in Middletown, Conn., tries to bring customers back to the dealership in what Glenn M. Holley, the firm's vice president, calls a "non-confrontational atmosphere," through service clinics and essentially social occasions, including an annual picnic. "Those occasions are a lot more pleasant to remember than the battery dying in your car," he says.

Thanks in part to such efforts, Holley Dodge sells well over half its cars to repeat customers, in an industry where customer loyalty is often much lower.

PHOTO: ©RICHARD HOWARD

Customers *should not be taken for granted, says Lowell, Mass., banker George L. Duncan: "You can get some real surprises, just when you think you know what you're doing."*

PHOTO: OKHOI TON

Dodge dealers *Robert G. Holley, left, and son Glenn cultivate a "nonconfrontational atmosphere" to encourage repeat business in an industry with traditionally high turnover.*

Bicycle retailer Zane touts toll-free numbers—both voice and fax—as a way of nurturing customer relationships. Customers on a bicycling trip in another part of the country, for example, can call Zane's without charge for a part or other assistance.

Remember that small kindnesses can carry a lot of weight.

"Say 'thank you for the business,'" says Elizabeth M. Ferrarini, a lecturer in business communication at Northeastern University in Boston. "Say 'thank you for the referral'"—with a box of cookies, perhaps. Likewise, if you can help a customer—by providing a sales lead, perhaps—do it.

At Zane's, if a customer needs something that costs less than a dollar, "we'll give it to you and thank you for coming in," says Zane. Total annual cost: $100 for what Zane considers far more effective advertising than the newspaper ads and the like that cost him $65,000 a year.

"It's amazing how tiny things will make them happy," Anna Johnson says of her customers, "and I want to do all those tiny things." Johnson is president of Super Embroidery Inc., a 30-employee Phoenix company that does automated embroidering of hats, caps, and jackets. She cites what happened near Christmas, when she was terribly rushed and one of her good customers came in and wanted a robe embroidered with the customer's mother's name.

"You throw a name on for them when you're really busy," she says, "and they're more impressed with that than getting a 2,000-piece hat order [exactly as they specified], because it's for them, personally."

Use technology as a helper—not as a crutch.

It's easy to overrate the importance of technology as a tool in building customer loyalty. In many large organizations, suggests consultant Fred Wiersema, author of *Customer Intimacy* (Knowledge Exchange, $22.95), databases become substitutes "for actually knowing people well on any other basis."

In small businesses, he says, "the key thing you have to work on is a level of personal contact, personal trust, personal closeness"—the sort of thing, he says,

Customers You Want To Lose

"If you try to serve all customers, you'll fail," says author and consultant Frederick F. Reichheld. "The instant you fall into the trap of trying to serve everybody, you're not going to be best for anybody."

For a small-business person, though, turning any potential customer away is a serious matter—there may not be that many customers to begin with. The solution may lie in defining the word "customer" properly: Someone who costs you money isn't a customer but rather a liability.

Sometimes, such "customers" all but advertise their undesirability. "There are some customers we want to lose," says John Kirchner, sales manager for industrial-chemical distributor PVS-Nolwood Chemicals in Detroit. "They don't pay their bills, they don't practice product stewardship"—complying with environmental regulations, for example—"and we elect to lose those customers. We'll fire them in a heartbeat."

Glenn Holley, vice president of Holley Dodge in Middletown, Conn., recalls "a customer who essentially never wanted to spend a dime here. Any time anything was repaired, he thought it was not right, and then he refused to pay a bill that we were entirely correct in charging him." Holley's solution: The customer didn't have to pay the bill, but Holley invited him to take his business elsewhere.

Often, though, it's a closer call. "We've had to weed our customers occasionally," says Anna Johnson, owner of Super Embroidery in Phoenix. "We've had customers that are always grinding you for that extra dime and always wanting it tomorrow."

Getting rid of such noncustomer customers can be easier when the small business has made clear what would be involved in a satisfactory relationship. For example, a customer may ask Johnson to produce a certain design at a price that is too low. Usually, she says, "I won't say I can't do it at that price"—but neither will Johnson simply ask for a higher price.

Instead, she will tell the customer how the design could be modified so that she could produce it at the price the customer has specified. If the customer still insists on the original design at the unreasonable price, the simplest and possibly best solution is to say goodbye.

"that doesn't come from having a bunch of data available about people."

"Once you have that foundation of trust and confidence in each other," he continues, "then having additional information in the database, and being able to act on that, becomes very powerful. But you don't start with having the data and then assuming that everything else will fall into place. You start with that personal contact."

It's as a business grows that technological sophistication can become particularly important—not as a substitute for personal contact but as a way of sharing knowledge. "The challenge is to take advantage of the information that you get in the informal contacts," says James W. Dean, an associate professor of management at the University of Cincinnati. "If it's a really small business, the owner can keep it in his or her head, but as the place grows, you can't do it in that way."

Zane says that his database "gives us the opportunity to focus specifically on customers that have needs." When a customer buys a baby seat for a bike, Zane can go back to that customer a few years later and let the person know that kids' bikes are on sale.

PHOTO: ©PAUL F. GERO

For some customers, *price is all that matters, and Anna Johnson, president of Super Embroidery in Phoenix, won't cut hers just to get their business.*

"We know what bike they're going to buy," he says, "so we make sure we have the right inventory before we mail out the 35 or 40 pieces"—as opposed to a scattershot mailing to all 15,000 names in the database.

Simply gathering useful information can be a challenge, particularly when a lot of small retail transactions are involved.

Zane's employees try to get customers to identify themselves even when they're buying inexpensive items, and the employees offer a carrot to those who do: Customers can return items without a receipt if their transactions are in the store's database. Zane says he captures almost all transactions.

Talk to the customers you lose. They might help you keep the others.

Says consultant Reichheld: "You have to look at your best customers, identify why they're not buying everything from you in your category—or why they're defecting and taking business elsewhere—and get to the root of why value somewhere else seems superior to what you can offer."

One reason you should seek such answers is that they can actually be reassuring, in a backhanded way; you won't have to lie awake at night wondering what went wrong.

For example, Super Embroidery has hundreds of customers, says Johnson, and she rarely loses any unless they go out of business. Sometimes, though, she loses customers to new companies that price very aggressively in an effort to get accounts. "Most of those I get back within three months," she says, because her competitors fail to keep their promises.

On the other hand, a defecting customer may offer a reason that points to a potentially serious problem. "From the customers we've lost that we've then been able to get back," says Zane, "we've heard that they just thought we didn't care whether they came in or not. It wasn't that the price was bad, it wasn't that the products were bad—they just felt when they came in that no one really cared that they were here." That's why he looks for friendliness rather than expert knowledge of bicycles when he hires.

Reward your best customers—but choose the rewards carefully.

Rewards can be risky. If they're not intrinsic to the product or service you're offering—if, say, you're offering a catalog of gifts that frequent purchasers can buy with points that they earn—rewards will "attract the wrong kind of customer," Reichheld says. Customers, that is, whose real interest is not in what you're selling, but in something else, and who thus can be lured away easily.

On the other hand, "if you offer the kind of reward that would only appeal to people who are doing lots of business with you and intend to for a long time, they'll self-select out and sign up."

A bookstore, for example, could offer a 15 percent discount on books to those customers who paid $20 for a frequent-shopper card. As Reichheld points out, "Nobody who isn't going to spend over $100 on books would rationally sign up for it." Then the store can track what its strongest customers are buying and perhaps send them mailings promoting books of that kind.

Likewise, you should offer rewards that don't antagonize those customers who aren't getting the special treatment. "Having [your best customers] walk up to

COVER STORY

PHOTO: ©CHRIS STEWART—BLACK STAR

In-store service *on small appliances helps K & K True Value Hardware in Bettendorf, Iowa, distinguish itself from "big box" competitors, says co-owner Donald Keller, with employee Karrie Jones.*

there's one person I deal with all the time, and they know my customer number, and they know who I am, and they know how to get my stuff out and what I want, it's so wonderful."

Each customer has special needs, Johnson points out—many of the orders are acutely time-sensitive because the embroidery is for clothing for specific events—and the longer that employee and customer work together, the more easily those needs can be met. Companies that want long-term relationships with their customers need equally healthy relationships with their employees. In particular, they must encourage employee involvement.

the front of the line is usually the wrong way," Reichheld says, "because that creates a lot of resentment."

You can, however, give them different phone numbers to call and provide different service levels. "There are ways to offer them special packages that are unavailable to others; there are ways to offer them special services" that don't involve rubbing everyone else's nose in their exclusion from those services, Reichheld says.

The higher the general level of service, the less likely that someone will take umbrage at special treatment for the best customers, says Gary Heil, coauthor of *One Size Fits One* (Van Nostrand Reinhold, $24.95).

Respect your front-line employees.

"If you've got a bunch of front-line employees who are churning in and out, don't understand your business, and couldn't care less about its future," Reichheld says, you won't be able to reap the benefits of a long-term relationship.

Embroidery-company owner Johnson knows from being a customer herself how important continuity is. When she's dealing with a hat company, for instance, "and

At Holley Dodge, Glenn Holley and his father, Robert G. Holley, the firm's president, take the word "empowerment" seriously. Potential additions to the 33-employee staff are told that they had best be prepared to play an active role in how the dealership is run—not only by pointing out problems but also by coming up with at least partial solutions. "We're trying to get everybody to contribute," Glenn Holley says.

Never try to win loyalty through price alone.

For small businesses, competing on price is typically a losing game—the high-volume retailers will usually come in lower—and it's also unnecessary.

"The price has to be in the ballpark," the University of Cincinnati's Dean says, "but people look beyond that, especially when the differences in price are relatively minor." For one thing, a company incurs costs when it changes suppliers constantly, so to do so simply to save a small amount of money may not make sense in the bigger picture.

"We never claim to be the cheapest dealership," Glenn Holley says. "We stress what happens after the sale." Although the dealership sells its cars for $200 to $300 more than other dealers do, Holley Dodge argues that it's worth a small premium—perhaps a dollar a week—to do business with a deal-

Blue Chip Firms

Four of the companies featured in this story have been honored as Blue Chip Enterprises in the annual competition sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the Chamber's syndicated morning business-news television program.

Each year, the Blue Chip Enterprise Initiative recognizes companies that have surmounted challenges of various kinds, often with the support of long-term customer relationships.

The Blue Chip companies in the cover story and the years they were honored are: Enterprise Bank and Trust, Lowell, Mass. (1995); Holley Dodge, Middletown, Conn. (1996); K & K True Value Hardware, Bettendorf, Iowa (1996); Superior Embroidery (predecessor of Super Embroidery), Phoenix (1996).

Applications are now being accepted for the 1998 competition; the deadline is Oct. 17. For information and an application form, call 1-800-FOR-BCEI (1-800-367-2234).

How Franchises Can Build Loyalty

By recognizing *front-line employees' contribution to customer loyalty, Kentucky Fried Chicken is trying to "flip the company upside down," an executive says.*

For many franchisees, talk of building customer loyalty may ring a little hollow. Customers may develop a certain loyalty to a fast-food chain, perhaps, but can they develop loyalty to particular franchisees' restaurants—interchangeable as they may appear to be with other restaurants in the chain?

"Almost always," says author and consultant Frederick F. Reichheld, franchisees "can do things that will build the right kind of employee base. That translates into customer loyalty, very directly."

Fast-food chains, with their typical employee turnover of well over 100 percent in a year and their minimal training, would not seem to be fertile ground for an employee-centered initiative, but Louisville, Ky.-based Kentucky Fried Chicken (KFC), a subsidiary of PepsiCo, Inc., is trying exactly that.

When he took his job a couple of years ago, says Gregg Dedrick, KFC's senior vice president of human resources, "one of the most important things I did" was to talk to a half-dozen of the system's strongest franchisees. "I got some very clear messages about what they were doing on the people side of the business to really drive results."

The critical element, he says, was recognition—"recognizing people who are doing good things in the front line to satisfy customers." In addition, KFC conducted focus groups across the country, he says, "and the overwhelming message we got from [customers] was that what they really wanted to see in our employees—what cued them as to whether this was a place they wanted to come back to and eat—was friendliness, pride in being there and pride in serving them, and teamwork."

KFC has responded to those findings by launching what Dedrick calls a "major cultural initiative" that embraces company stores and franchise units, and whose aim is to "flip the company upside down" by recognizing the importance of front-line employees.

The company has been "cascading" team-oriented training down through the ranks, Dedrick says, starting with a three-day meeting for all managers of KFC-owned stores last year. Also involved are the top 100 of the system's more than 700 franchisees plus six regional franchise associations. Dedrick expects that it will take three years for change to spread throughout the chain.

Investing in training will be worth it for KFC and its franchisees, Dedrick states. "You've got to get the employee-satisfaction equation right," he says. "You've got to get the right leadership in that store; you've got to build the right team. Then you apply that against customer service, and the financials come."

ership designated by Chrysler Corp. as one of its best in the country.

K & K True Value Hardware in Bettendorf, Iowa, has adopted a multipronged approach in competing with a half-dozen "big boxes," or huge-volume retailers, says Donald Keller, one of the principal owners. It invites customers' attention to its prices: "Our prices will surprise you," its slogan says. But its ace in the hole is service. For example, it emphasizes its ability, with its half-dozen mechanics, to service small appliances on the premises. "You don't have to send it somewhere else; we can do it right here," Keller says. "We can pick it up; we can work on it; we can deliver it. Our clerks know that that's an advantage we have, so they bring it out."

In the same vein, K & K often hires clerks who have reached retirement age and can bring an expertise to sales that may be lacking at the "big boxes."

For some customers, of course, price is all that matters. Those are customers you probably can live without.

"There was one customer we lost because of 3 cents a hat," even though the customer was completely satisfied in every other way, recalls Super Embroidery's Johnson. That customer's buyer called Johnson a few months later, complaining that her new supplier was slow and the quality of its work was below Johnson's—but the customer still wanted Johnson to reduce her price by 3 cents a hat before she would give her the order.

Cutting your price to snare such a customer is probably pointless—you'll get less money, and you probably won't keep the customer anyway.

Look upon recovering from a mistake as an opportunity—not a cost.

"Customers recognize that we're not perfect," says John Kirchner, sales manager for Detroit-based PVS-Nolwood Chemicals, an 85-employee industrial-chemical distributor serving Michigan and northern Ohio. PVS-Nolwood won an award of excellence last year from the International Customer Service Association.

"Lots of things can go wrong," Kirchner says. "The one thing customers will not tolerate is a supplier who does not recognize the error."

Far from damaging a relationship, a mistake can be "a wonderful opportunity to build a bridge between the provider and the customer," says consultant Emmet Robinson of Malvern, Pa. "Once they see that you take care of your mistakes, your credibility is enhanced."

The reason that recovery from a mistake can be such a powerful tool for

building loyalty, author Heil says, is that "people are not loyal unless they think they can trust you and you care."

In the normal course of a business relationship, the depth of a vendor's commitment will not be put to the test—but a serious mistake will reveal quickly just how trustworthy that vendor is.

Absorb temporary costs to preserve a long-term bond.

When you're considering the cost of making a customer happy, weigh it against the cost of losing that customer—all the revenue that you won't get because that customer stops doing business with you.

"We've found it's a lot easier to keep our customers happy with the service and products they're receiving than going out and finding new customers," says United Design's Gary Clinton. To that end, United tries not to hassle customers who report missed deliveries or broken products. Most customers, he says, don't like to report problems, "so we try to treat them with a great deal of respect and be easy to work with."

If an order arrives broken, for example, United ordinarily won't ask that it be returned before it sends a replacement. Only if there's a history of such broken shipments might United ask its local representative to go by the store and find out where the problem is.

To accommodate its customers, Clinton says, United will reconfigure its production "just to handle an unforeseen large demand."

In 1994, for instance, United faced unusually heavy demand for one product that was being made in China. "We actually stopped production" in the Noble factory, Clinton says, and shifted it to the in-demand product. The problem: The product was priced at a level that assumed lower-cost production in China.

"We knew we would lose money on that production for a couple of months," Clinton says, "but we wanted to keep customers happy."

Kirchner likewise recalls situations when PVS-Nolwood, to meet a commitment to provide a product at a certain price, bought that product at a much higher price when some disaster eliminated the original source. PVS-Nolwood does that, Kirchner says, "because we want to be a long-term supplier and partner. If, at the end of the day, it didn't pay for itself, we wouldn't do it."

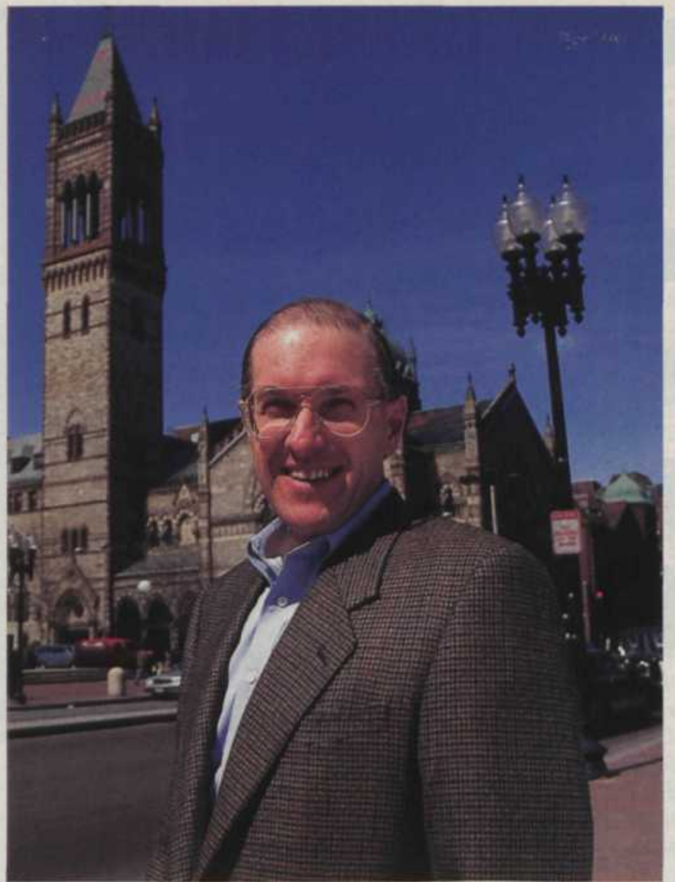


PHOTO: ©RICK FRIEDMAN—BLACK STAR

Reward *your best customers, Boston-based consultant Frederick Reichheld suggests, but not in a way that antagonizes the rest.*

If you don't want a long-term relationship with a customer, don't pretend that you do.

A constant theme from those convinced of the value of customer loyalty is that the people seeking it must really believe in it. "You have to have your whole business tuned up to earn loyalty, as opposed to using it as a gimmick," consultant Reichheld says.

"Customer service has to be ingrained in the organization," banker Duncan says. "It has to be part of the organization's mission and vision, right from Day One. Then the rest tends to be simple—it carries over to your products, your advertising, your staffing, and everything else."

If you give lip service to customer service but don't really care about it, customers will detect your insincerity, Heil says. "I think we can smell a rat a thousand miles away." You'll probably be better off in some commodity business where price alone governs.

For business people who are serious about seeking customer loyalty, it's not just a business strategy but something like a moral imperative. For them, genuinely caring customer service connects with the way that people treat each other in other areas of life.

As Duncan puts it, "It's the right thing to do." NB

To order a reprint of this story, see Page 45. For a fax copy, see Page 22.

Further Reading

Customer loyalty is a subject that has spawned a rapidly growing library, including these recently published books; they offer insights into loyalty from a variety of perspectives.

The Loyalty Effect, by Frederick F. Reichheld (Harvard Business School Press, $24.95). The book makes possibly the strongest argument so far for the importance of customer loyalty to a company's long-term success. Reichheld also edited *The Quest for Loyalty* (Harvard Business School Press, $29.95), a collection of essays by authorities ranging from Peter Drucker to Charles Handy.

Customer Intimacy, by Fred Wiersema (Knowledge Exchange, $22.95). It details the case for close partnerships between customers and vendors.

One Size Fits One, by Gary Heil, Tom Parker, and Deborah C. Stephens (Von Nostrand Reinhold, $24.95). This book makes an argument for the importance of what Heil calls "customizing the experience" for customers and employees.

Getting Into Your Customer's Head: 8 Secret Roles of Selling Your Competitors Don't Know, by Kevin Davis (Times Business, $25). Salespeople, Davis says, must do more than sell; they must also nourish relationships.

TAXATION

The Estate-Tax Toll On Small Firms

For many companies, the estate tax's bite is bigger than the rates indicate, but some relief may be on the way.

By Joan Pryde

The federal estate tax may not have killed Gordon Perkins' business, but the administrative headaches and the costly drain on his resources it has caused are another matter.

His mother, Ella Perkins, who was a co-owner of Perkins Flowers Inc. in Lapeer, Mich., died in March at age 83. Gordon is still trying to determine the value of her estate and to calculate the estate-tax liability—a process he says will take several months altogether, not to mention more than $20,000 in legal and accounting costs.

It's not as if the mother and son hadn't prepared. Three years ago they agreed to several estate-planning steps. Ella relinquished part of her ownership and became a minority stockholder in the firm to minimize the amount of estate taxes due after her death. Gordon sank $60,000 into monthly payments on a life-insurance policy for his mother that will pay out $200,000, which he hopes will be enough to cover the estate-tax bill. If it's not, he is prepared to sell a 43-acre tree farm that is part of the business.

But it galls Gordon that he has used up so much time and money preparing for and trying to minimize estate taxes. "We weren't blindsided by this; we did our estate planning," he says. "But I can tell you this for sure. At the very least, it's going to repress the growth of my business for some significant amount of time."

That, according to small-business advocates, is the crux of the problem: The estate tax carries too high a price tag for small, family-owned enterprises, whether they end up paying the tax or finding a way around it with careful estate planning.

For small-business owners like Perkins, however, and for owners of family farms, help may be on the way—though it's not clear how much help. Congressional leaders and President Clinton included estate-tax relief in their balanced-budget proposals, and House-Senate conferees are working out the details. (See the article on Page 24.)

A Trio Of Levies

Federal estate taxes—or "death taxes," as they have been dubbed—were first levied by Congress in 1916. The current estate tax is actually one of a trio of so-called wealth-transfer taxes; the other two are the gift tax and the generation-skipping tax, which carries a flat rate of 55 percent on assets passed to grandchildren or great-grandchildren.

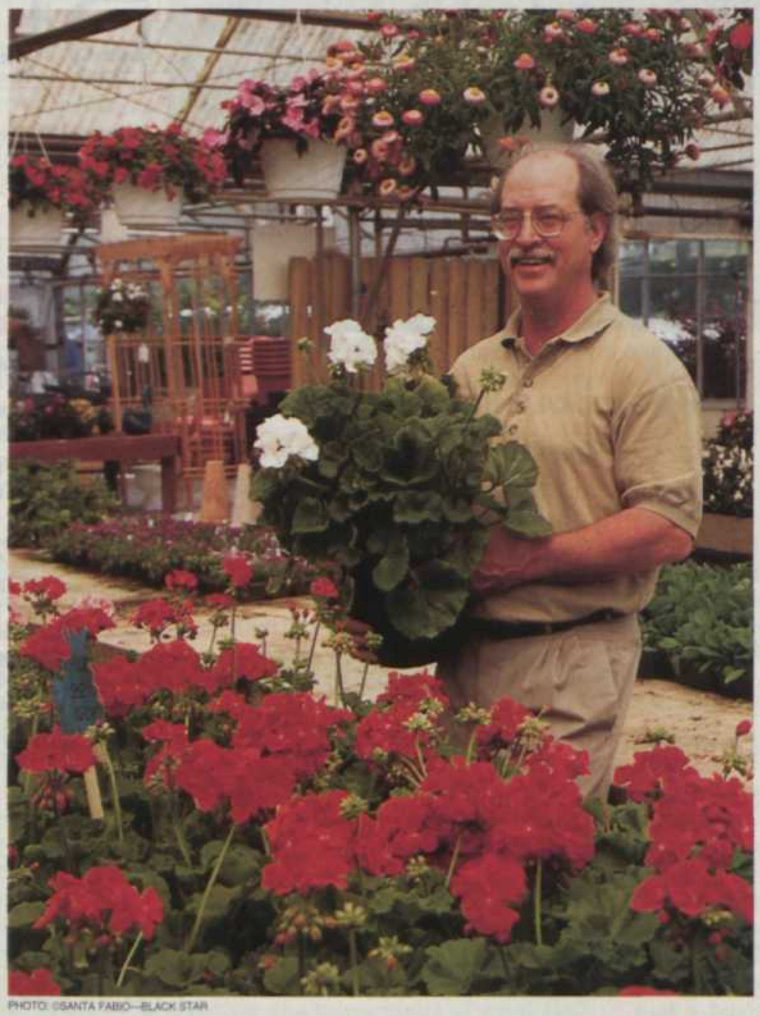


PHOTO: ©SANTA FABIO—BLACK STAR

Estate planning—*even if it's successful in minimizing taxes—will be costly for his nursery business, says Gordon Perkins.*

Since 1976, the estate and gift taxes have shared the same rates, ranging from 37 percent to 55 percent, depending on the value of the estate. (See the chart on Page 24.) Each citizen has a one-time exemption of $600,000—called the unified credit—from either tax. In addition, an individual may give up to $10,000 each year to anyone—with no limit on the number of gifts—without paying the gift tax.

The taxes on an estate are generally due nine months after the death of the individual, but Internal Revenue Service rules allow estates involving closely held businesses to make installment payments—with interest—over as long as 14 years. In addition, the first $1 million of the value of the business is eligible for a 4 percent interest rate. Yet despite the favorable terms, IRS records show that very few small firms opt for the extended payments.

On the surface, it may seem surprising that the estate tax is such a hot issue among owners of small businesses and farms. IRS figures published in April indicate that only a fraction of taxable estates are small companies or farms. The figures show that in 1995, the IRS collected a net $11.8 billion from 31,564 taxable estates. Of that total, only 5,397 estates, or about 17 percent, contained closely held businesses or farm assets.

But small-business advocates insist that the IRS figures fail to give the total picture. Not included in those numbers, they say, are an undetermined number of business owners who eliminated their tax liability with savvy estate planning.

A 1996 survey of 1,003 small-business

GOLFING NEWS

by Mike Hensen

Ex-Navy engineer puts armor-piercing material on a driver. Outguns steel and titanium on distance.

PGA professionals outhit their titanium drivers by 25 and 50 yards

YALESVILLE, CT – And you thought steel and titanium were tough. Well, steel and titanium can't penetrate an armor-plated tank or sink a warship. To pierce their defenses the military had to make something so powerful it had to keep it secret… so powerful that once it was declassified, some innovative company would surely apply it to the face of a golf club to add distance.

One has and it doesn't bode well for golf's current state-of-the-art metal, titanium. A well-known professional outhit his own titanium driver with the new club by 25 yards. Another Tour professional outhit his titanium driver by almost 50 yards!

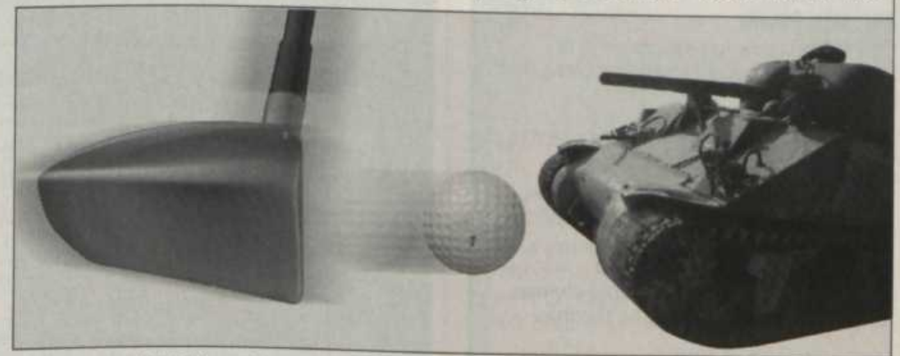
The new driver is the creation of a former Naval Ordnance engineer who used to apply the material to the tips of torpedoes, and a small golf company in Connecticut. Together, they have adapted it to the hitting surface of a steel driver. They say

> "The harder it's hit, the farther it goes."

their adaptation is proprietary and a patent has been applied for.

All the company will say is that the new metal is a sort of ceramic titanium, ceramic for hardness and titanium for strength and lightness. The material – called CT-20 – is twice as hard as steel and 70% harder than titanium. It whacks a ball with such force that at clubhead speeds of 120 MPH – the level of longball champs – the new club split the cover on some balls.

CT-20 also increases a golfer's accuracy by holding the ball on the face of the club four times longer than steel and titanium. This makes off-center shots far less likely to hook or slice, and allows a good golfer to draw and fade the ball with more control. I watched a top Tour professional test the club at a PGA Tournament. Here's what he told me.



Once-secret CT-20 is used on shells to penetrate tanks and warships, and on spacecraft to withstand heat on re-entry. It is twice as hard as steel, 70% harder than titanium.

"I'm hitting the ball 30 yards past my driver and controlling it like a five-iron. You see all my competitors smiling at me? That's not admiration. It's worry."

The company's Research Director explained the club this way…

"It's basic physics. The harder you hit a ball, the farther it goes, and Condor® Armor-Pierce (the club's name) clobbers a ball like a battering ram. It not only launches it farther down range than any thing else on the market, its CT-20 face reduces a ball's normal spin rate. A lower spin rate keeps the ball flying longer and at a lower trajectory for a longer roll.

"Condor Armor-Pierce also reduces *abnormal* spins that cause off-center shots to hook and slice. That's why he's outhitting his titanium driver by 30 yards and controlling 300-yards shots like a five-iron. It's a pleasure to watch, isn't it?

"You know who he is? (I said I did.) He loves the club. I wish he weren't tied up with a big company. He would shoot in the 50's with the Condor Armor-Pierce. Imagine that on TV. Titanium drivers would be history before he changed shoes, especially at Condor Armor-Pierce's price."

The once-secret CT-20 is backed up by a stainless steel head the same size as a titanium driver (250 cc's) for maximum forgiveness. To maximize clubhead speed it comes with a 45-inch graphite shaft, or a new big butt Turbo/Tip™ graphite shaft with extra weight in the tip.

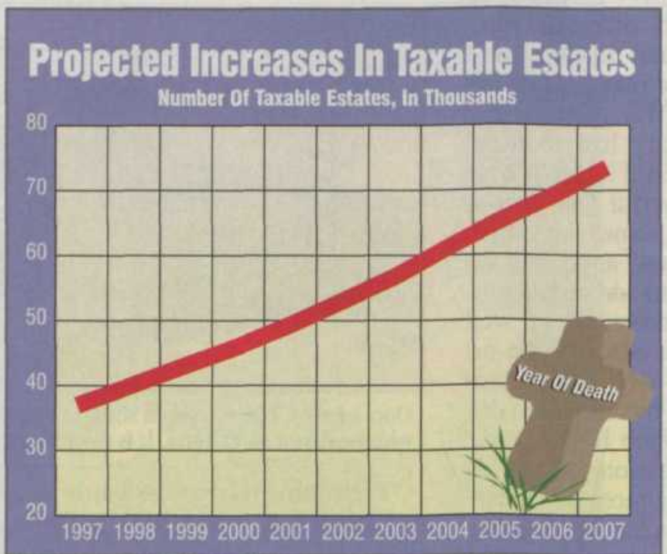
You can test the Condor Armor-Pierce for 30 days by calling **1-800-285-3900** any time or day or faxing 1-203-284-1623. Or you can send your name, address and check (or cc number and expiration date) to NGC Golf (Dept. TC-57), 60 Church St., Yalesville, CT 06492. The club cost only $129.00 (a fraction of the cost of titanium clubs) and you can add the 3 and 5-woods for only $109.00 each. Add $20.00 to these prices for the new Turbo/Tip (big butt) shaft. Shipping is only $10.00 no matter how large your order. Specify regular or stiff flex, men's or ladies', when you order. Right-handed only. There's a 30-day money back guarantee, if the clubs are returned undamaged.

Oh, yes. If you swing at 120 MPH, take some extra balls.

TAXATION

owners nationwide underscores that point. Conducted by researchers at Kennesaw State University in Kennesaw, Ga., the survey found that more than half of the respondents believed that their estates would be hit with a tax bill that would limit their firms' growth potential. About one-third of the respondents said payment of the expected estate tax would require the sale of part or all of their businesses.

Moreover, the number of small firms that will be affected by the estate tax is likely to grow. Estimates released in April by Congress' Joint Committee on Taxation indicate that the chances of a small business being subject to the effects of the levy will increase substantially in the next few years. According to a report by the committee, the number of taxable estates is



SOURCE: JOINT COMMITTEE ON TAXATION

expected to nearly double in the next 10 years, from 37,200 this year to 73,200 in 2007.

For business owners who worry about estate taxes, there is some comfort, however: Financial planners maintain that there are many ways to minimize liability.

One of the principal steps that companies take in preparing for an expected estate-tax bill is to buy life insurance on the owner or owners, making certain that the policy is owned by the company or a life-insurance trust and that the proceeds are kept out of the owner's taxable estate.

Another popular estate-planning technique involves the annual gift giving that is tax-free as long as it doesn't exceed $10,000 per recipient. The gifts can be in the form of stock or other assets.

Another popular tax-minimizing technique involves tax-exempt charitable bequests of business interests.

Business owners can also shelter assets from estate taxes by creating one or more trusts. While there are numerous ways to structure trusts, all offer the benefit of removing taxable assets from an estate.

A Demanding Task

To hear some estate planners talk, all a small-business owner needs to do is pick the best tax strategy, put it into place, and forget about the estate tax. But advocates for small business and many owners themselves say it's not that simple.

The level of estate planning needed to minimize estate-tax liability significantly "generally requires a business to have a lot of discretionary cash to hire attorneys and accountants who can mastermind a plan to thwart the punitive nature of the estate tax," says Karen Kerrigan, president of the Small Business Survival Committee, a lobbying group based in Washington, D.C.

And that amount of discretionary cash is not always available.

Grafton "Cap" Willey knows. Not only is he a small-business owner, but his business handles other people's finances. He is a co-owner of Rooney, Plotkin & Willey, an accounting firm in Providence, R.I. "You can create trusts, and you can create other vehicles, but they're very costly to administer, and they're very prone to being overturned by the IRS if you don't dot every 'i' and cross every 't,'" Willey says. Trying to get around the estate tax "creates wonderful work for accountants and lawyers, but that's not really to the benefit of the small business."

For many small-business owners, the demands of developing their companies are so great that estate-tax planning catches them unawares.

When Ron Deabler and his father, John, a manufacturers' sales representative in Brookfield, Wis., visited an attorney three years ago to set up a succession plan for John's business, they didn't realize that they were going to have to plan for the estate tax.

Until then, "I never really knew what the implications of the estate tax were," says Ron, who owns American Technical Services, a small employment-placement firm in Brookfield.

John's sales business, which he started in 1959 with $100, has grown to a net worth of $1.5 million to $2 million, his son estimates. John's other wealth should push the value of his estate to several mil-

lion dollars. Ron guesses that if the Deablers had not developed an estate plan, it would have become necessary eventually to sell the business to pay the estate taxes. But their lawyer created several trusts to shield the estate's assets from tax. The set-up cost was about $10,000.

That's not the end of it. Ron says the family will have to spend considerable time and money every year completing tax returns on the trusts to make sure they are legal. "Why should we have to jump through these hoops?" he asks.

More Is Not Merrier

Planning for estate taxes gets even more complicated and burdensome when a small business is owned by a sizable group of family members. John Dudley, a cattle rancher in Comanche, Texas, has been living with that problem for more than 20 years.

Dudley Brothers Ltd. Ranches was started in 1938 by John's parents, two of his uncles, and the uncles' wives. The ranch grew to 30,000 acres and employs 30 people, including several family members.

Dudley says that after his father died in 1976, it took 10 years of payments to the IRS amounting to several hundred thousand dollars to settle his estate-tax bill. In 1982, one of his uncles died, which meant another round of estate-tax payments.

"The result, of course, has been to sap the available cash out of the family business," Dudley says. "Any money that could have been spent on conservation efforts, brush control, water development, fence repair, and wildlife management has been spent to pay death taxes."

Dudley says paying estate taxes did not ruin the ranch financially, but he worries that more payments are looming: His mother, his uncle, and the uncle's wife are still active owners in the business, and they are all over 80. That means some of the property probably will have to be sold when tax bills for those relatives' estates come due.

The elder owners could take steps now to minimize their holdings in the ranch, but they are reluctant to give up control.

Difficult Transitions

Transferring ownership of a business through buy-sell agreements, partnerships, trusts, or outright gifts is a key component in many of the planning strategies available to minimize or eliminate estate-tax liability. But many small-business owners say the government shouldn't be forcing them to get out of their companies before they are ready.

Perkins Flowers is a case in point. The

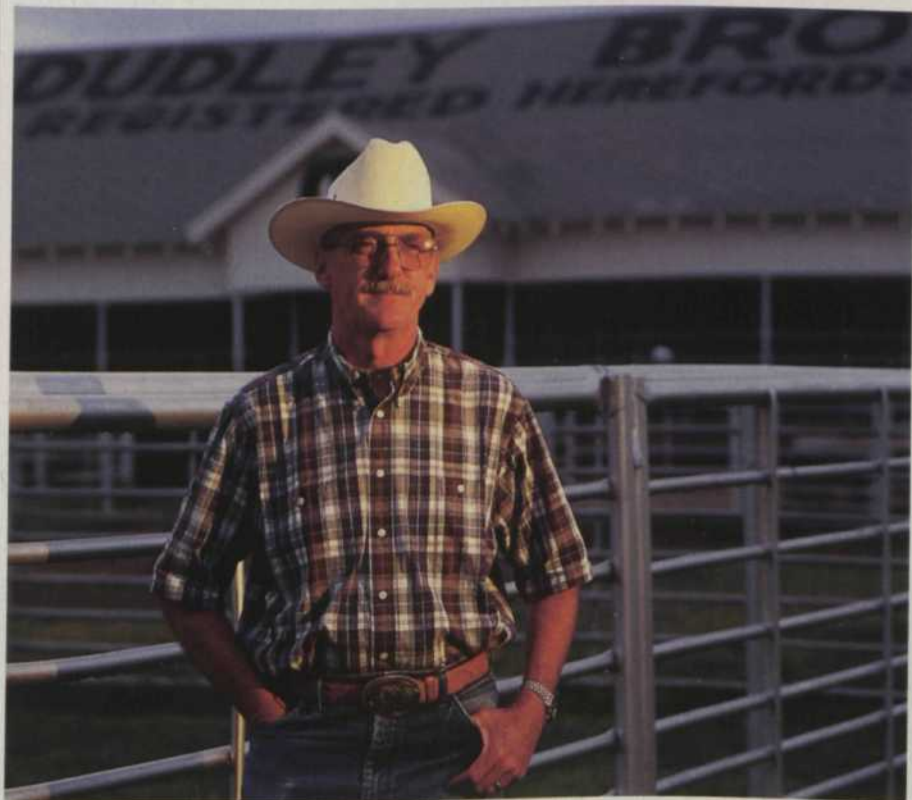


PHOTO: ©JOHN R. FULTON JR.

Planning for estate taxes *is further complicated for a business when a number of family members have ownership, says cattle rancher John Dudley.*

business was started in Westlake, Ohio, in 1903 by Gordon Perkins' grandfather. It moved to Lapeer in 1954 and has grown to include a wholesale greenhouse, a retail garden center, a landscape tree farm, and two retail flower shops. The company employs 35 people full time and 20 part time.

Ella Perkins was always a strong influence in the business, especially after the death of her husband 16 years ago. She put in 12-hour days until just before she died. Gordon knew that his mother didn't want to stop working, but that made their estate planning difficult.

"Handing down control was a slow, cautious process for my mother," he says. "One of the hardest things I ever had to do was to tell my mother, 'You have to start giving this away'" to shield the business as much as possible from estate taxes.

Perkins is beginning to think he may have to turn the business over to his son Chad, 26, to ensure its survival, but he's not ready to do that. And he resents the fact that the estate tax "forces you to make that decision prematurely. Now I have to start giving it away at 51? It kind of makes me mad."

There's always the ultimate solution: An owner can sell the business during his or her lifetime, although doing so creates another set of tax problems. Nonliquid business assets are indeed replaced with cash that can be used to cover the estate tax. But often the whole point of maintaining a business is to be able to pass it on to the next generation. So selling a business is usually the last resort.

Federal Estate Taxes

Estates valued at more than $600,000 are subject to federal estate taxes on a sliding scale. The $600,000 figure is calculated after deductions for charitable gifts, debts, funeral expenses, and executor's and attorneys' fees. Following are the federal tax rates that apply to the amount in each bracket of an estate's value:

Portion Of Taxable Estate	Tax Rate
$ 600,001 - $ 750,000	37%
$ 750,001 - $1,000,000	39%
$1,000,001 - $1,250,000	41%
$1,250,001 - $1,500,000	43%
$1,500,001 - $2,000,000	45%
$2,000,001 - $2,500,000	49%
$2,500,001 - $3,000,000	53%
$3,000,001 And Above	55%

SOURCE: *THE MONEY BOOK OF PERSONAL FINANCE*

For many small-business owners, the flap over estate taxes boils down to being able to save their business and put the money they earn back into their company instead of sending it to Uncle Sam or paying it out to estate-planning professionals.

The key question for lawmakers, says Drew Mendoza, program director for the Family Business Center at Loyola University Chicago, is this: Who should keep the money—the federal government or the business owner? Mendoza's answer: "I firmly believe that $100,000 in the hands of an entrepreneur will have a better return than that same $100,000 has in the hands of the government." NB

Reform Plans On Congress' Agenda

Congress is on the verge of providing at least some incremental estate-tax relief.

Estate-tax provisions contained in separate balanced-budget bills approved in late June by the House and Senate contain a number of similarities and one key difference. Among the similarities, the House and Senate packages provide for a phased-in increase in the $600,000 personal estate-tax exemption to $1 million. The House bill would phase in the increase over 10 years; the Senate bill calls for nine years.

Under both tax packages, the exemption would be indexed for inflation annually after reaching $1 million. The $600,000 limit hasn't changed since 1982. If the exemption had been indexed all along in step with the Consumer Price Index, it would now be $838,000.

In addition, both measures would extend to 24 years from 14 years the Internal Revenue Service's special installment-payment period for estate taxes owed by closely held businesses.

In a key difference between the two tax packages that will have to be resolved by a House-Senate conference committee, the Senate bill would target family businesses and farms by adding on top of the exemption an exclusion for the first $1 million of value in qualified family-owned businesses.

When combined, the proposed $1 million exclusion and the current $600,000 exemption would immediately put $1.6 million in small-business estate value out of reach of the IRS. Within a decade, that amount would rise to $2 million.

The conference committee is expected to complete its work before Congress adjourns for August.

Before the conferees got to work in early July, President Clinton proposed modifications in the tax-cut package, including an alternative approach to cutting estate taxes. Clinton proposed excluding an additional $900,000 from estate taxes for certain family-owned businesses and farms. Thus, Clinton would allow a qualifying individual to pass tax-free to heirs a total of $1.5 million—up from the current $600,000.

Clinton's narrowly focused estate-tax cut would cost the Treasury an estimated $7.2 billion over 10 years, compared with $28.6 billion for the House version and $35.2 billion for the Senate version.

Assuming that Congress does grant such relief, what are the chances that estate taxes will be repealed eventually? That's the option strongly favored by the U.S. Chamber of Commerce, though the Chamber and other organizations have said they support the incremental measures now in Congress as an interim approach.

Congressional leaders, while moving forward with interim relief now, say they want to revisit the issue of repeal later. "I believe the death tax is the wrong tax, it comes at the wrong time, it hurts the wrong people, and it helps the wrong people," House Ways and Means Committee Chairman Bill Archer, R-Texas, said in June. "It should be abolished."

Moreover, House Speaker Newt Gingrich, R-Ga., and Senate Majority Leader Trent Lott, R-Miss., say they want to get rid of the levy eventually. So don't count out the possibility of more estate-tax relief after 1997.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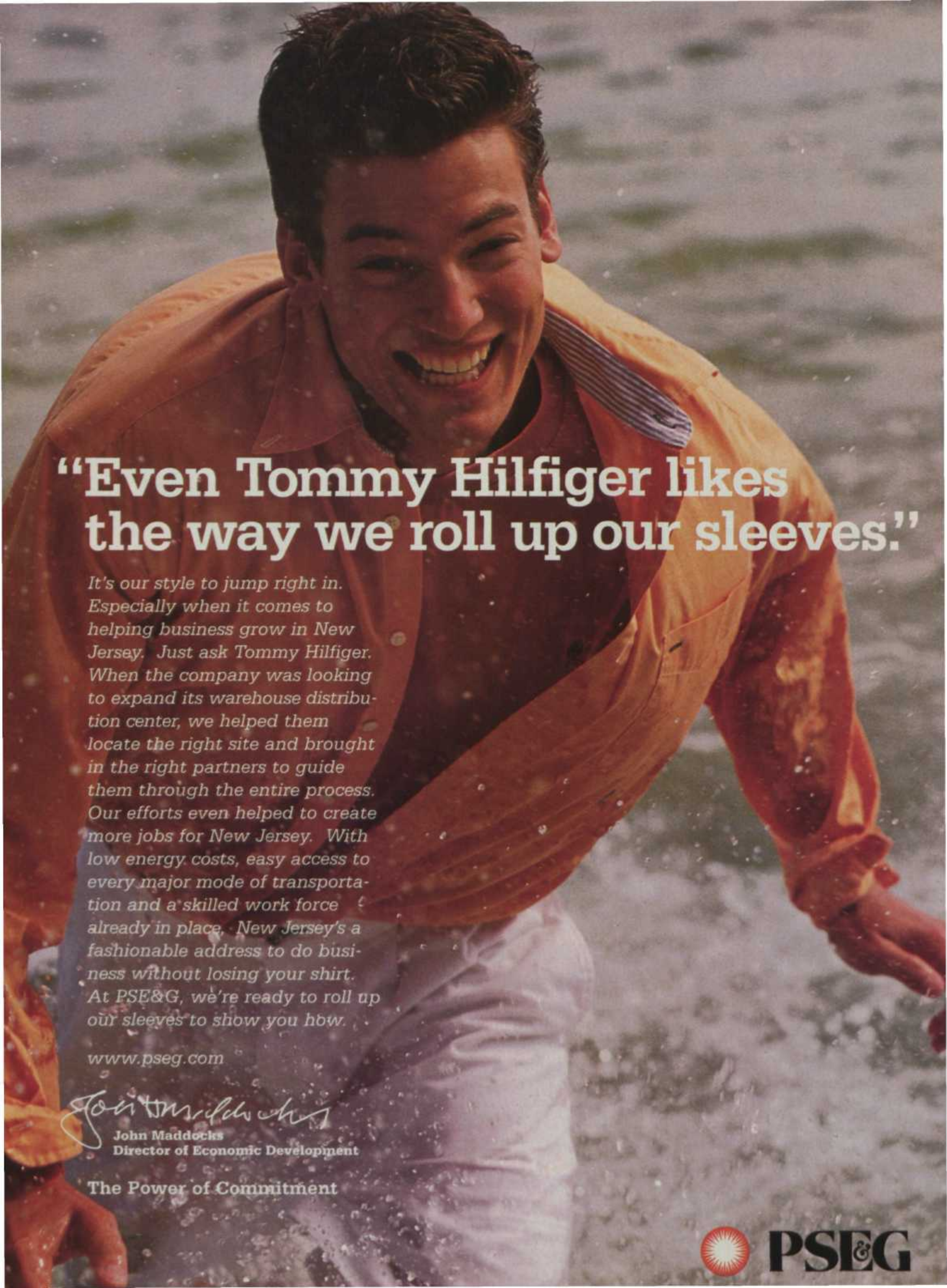
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Mutual funds soar in second quarter; health plans get more complicated; Congress may revive educational tax break.

Stock Market Is Expected To Remain Strong

By Randy Myers

Stock-market investors now know how the first airplane passengers must have felt: thrilled to be flying so high, frightened by the prospect of crashing, but determined to go along for the ride.

Encouraged by a rare but persistent combination of strong economic growth and tepid inflation, investors continued to pour money into the stock market during the second quarter, sending the average domestic stock fund up 15.4 percent. That was the biggest quarterly advance since the first quarter of 1991 (when the average fund rose 17.7 percent) and nearly 1.5 times the average annual gain for U.S. stocks since 1926.

Heading into the third quarter, there was nothing to suggest that investors, or the stock market, would be changing course anytime soon, although nobody was predicting that this quarter's gains will match those of the last.

"People are asking if we're going to have a correction [reversal]," says Robert Lutts, president of Cabot Money Management in Salem, Mass. "Yes, we are. But I don't know when, and I don't think it's worth trying to find out right now."

Small Firms' Performance

If the buying does continue, it should benefit a broader swath of investors. While the market has been led by the big blue-chip stocks over most of the past three years, small-company stocks claimed a share of center stage during the second quarter, with technology issues—including makers of electrical and business equipment—at the head of the pack. (See the chart on the next page.) That activity was reflected in the performance of mutual funds, the vehicle of choice for many individual investors who want to participate in the market.

Performance By Mutual Fund Category

With Dividends Reinvested Through June 30

Type Of Fund	2nd Quarter	One Year	Five Years*
	(Figures are percentages)		
General Stock Funds			
Capital-appreciation funds	13.87	14.44	16.41
Growth funds	15.82	23.96	17.25
Midsize-company funds	15.79	15.61	17.98
Small-company funds	17.10	13.71	18.88
Micro-company funds	17.60	13.34	15.88
Growth and income funds	14.30	28.07	17.35
S&P 500 Index objective funds	17.28	34.00	19.23
Equity income funds	12.85	26.73	16.24
General Stock Funds Average	15.37	22.00	17.45
Sector Stock Funds			
Health/biotechnology funds	15.76	18.28	18.02
Natural-resources funds	6.79	15.78	15.07
Environmental funds	11.56	12.97	8.83
Science and technology funds	18.32	19.29	25.91
Specialty/miscellaneous funds	12.12	14.51	16.30
Utility funds	8.69	13.91	11.81
Financial-services funds	17.06	43.60	25.06
Real-estate funds	5.34	31.66	14.25
Sector Stock Funds Average	11.02	20.43	17.81
International Stock Funds			
Gold-oriented funds	-12.16	-24.36	4.80
Global funds	12.18	19.22	13.82
Global small-company funds	10.17	9.32	14.74
International funds	11.05	16.54	12.45
International small-company funds	7.26	13.52	9.96
European-region funds	6.58	22.92	14.06
Pacific funds, excluding Japan	8.88	8.72	11.66
Pacific-region funds	11.00	4.96	11.43
Emerging-markets funds	10.50	18.06	11.74
Japanese funds	19.99	-4.67	5.70
Latin American funds	19.15	40.95	11.49
Canadian funds	1.09	6.12	9.89
International Stock Funds Average	10.11	14.50	11.80
All Stock Funds Average	13.58	19.81	16.46
Mixed Equity Funds			
Flexible portfolio funds	10.56	18.48	12.94
Global flexible portfolio funds	8.77	17.29	11.95
Balanced funds	10.19	19.41	13.00
Balanced-target maturity funds	7.06	12.72	10.17
Convertible-securities funds	8.90	17.68	13.52
Income funds	7.86	15.44	12.43
Mixed Equity Funds Average	9.82	18.36	12.81

SOURCE: LIPPER ANALYTICAL SERVICES INC.

*Average annual change for five years

CHARTS: GEORGIA LEIGH McDONALD

According to Lipper Analytical Services Inc., a research firm based in Summit, N.J., mutual funds that invest in the very smallest companies—so-called micro-cap funds—actually outperformed those that try to mimic the Standard & Poor's 500 index of big-company stocks in the second quarter.

The former posted a total return (price gains plus reinvested dividends) of 17.6 percent for the period, compared with 17.3 percent for the S&P 500 funds.

The Price Of Success

It seems that some investors—professionals and laymen alike—have finally concluded that many big-company stocks are simply getting too expensive.

"I think there's a lot more risk in the S&P 500 today than there is in small stocks," says Lutts. "They have not participated in this bull market over the last three years the way the S&P 500 stocks have participated, and we expect that they will outperform very soon."

In fact, that trend may have already started. So-called small-cap funds tracked by Lipper Analytical—those that invest in companies just slightly larger than the firms found in micro-cap funds—nearly matched the S&P 500

funds in the second quarter, with a gain of 17.1 percent.

A Barometer Of Price

To see how dear some blue-chip stocks have become, it is necessary only to look at their price-to-earnings ratios—that is, how much investors are willing to pay for them in relation to their earnings power. On average, the stocks in the S&P 500 finished the second quarter at a price equal to 21.3 times their trailing 12-month earnings. That's far above the 14.8 price-to-earnings ratio that has prevailed, on average, since 1960.

What (besides vertigo) could persuade investors to stick with small stocks and pay less attention to high-priced big ones? Lutts says a disappointing earnings report by one of the big market leaders could be the trigger, especially because Wall Street is widely expecting good earnings reports for the second quarter.

Many stock analysts expect corporate earnings to increase by about 9 percent in the second quarter from their year-earlier level. Anything below that rate could send investors into a tizzy.

To avoid earnings disappointments, companies are being forced to extend the productivity gains they have registered over the past few years as they have cut costs and re-engineered their processes. Doing so will be particularly important in the quarters ahead if the pace of economic growth starts to slow down. One early warning sign: After growing at an annualized rate of 5.9 percent in the first quarter, the nation's gross domestic product, analysts estimate, grew at a rate of just 1 or 2 percent during the second quarter. Still, they expect the economy to grow at about 3.4 percent for all of 1997, up from 2.4 percent in 1996.

In his own practice, Lutts is shying away from the most expensive big-company stocks and instead is searching out two types of firms. He is buying selected companies that are using technology to improve productivity, either for themselves or for an entire industry, and he likes financial-services firms that are benefiting from demographic trends such as the maturing of the baby-boom generation and its desire to invest.

Diversifying Internationally

Some investors, while not wishing to miss out on any further run-ups in the U.S. stock market, are casting a longing eye overseas as they search for ways to diversify their portfolios and profits. One country that's hard to ignore right now is Japan; mutual funds that invest in Japanese companies earned on average a whopping 19.99 percent for their shareholders during the second quarter. That was the biggest gain registered by funds in any category tracked by Lipper and marked a sharp turnaround for this group, which had been nearly flat over the past five years as Japan struggled with a sluggish economy.

Seung Kwak, lead portfolio manager for the Japan Fund, one of the Scudder family of funds, says a number of factors made him bullish on Japan in late 1996. Among them were his expectation of improved corporate earnings at Japanese companies during a period of low interest rates; important structural changes taking place in the Japanese stock market, such as stock buybacks and the introduction of stock options; and the fact that Japanese pension funds and foreign-investment portfolios alike have plenty of money to start buying Japanese stocks if market sentiment changes.

Other international markets also performed well during the second quarter, with Latin American funds up 19.2 percent and international funds up 11.1 percent.

Bond Results

There was good news in the second quarter for fixed-income investors, too, as the average taxable domestic bond fund earned 3.4 percent during a period of gradually declining interest rates. Kent Williams, a principal of Wood Island Associates, a money-management firm in Lakespur, Calif., just north of San Francisco, says that at the end of the second quarter, bonds still looked attractive—at least as appealing as stocks.

If so, credit the current benign inflation level. Inflation remained under control throughout the quarter, and expectations for any immediate interest-rate increases dissipated.

At the end of the second quarter, Williams was recommending Treasury notes maturing in three to five years for conservative investors seeking income, and 30-year Treasury bonds for aggressive investors seeking capital appreciation.

For most investors, merely staying the course, whatever the investment strategy, has been good enough so far this year. In a market like this one, it takes work to lose money.

Randy Myers is a financial writer in Dover, Pa.

Stock Performance In The Second Quarter

Industry Group	Change In Value April 1 To June 30
Electrical equipment	31.3 %
Business equipment	28.5
Credit	27.5
Cosmetics—personal	26.1
Drug manufacturers	24.7
Business data processing	24.3
Machinery—heavy	22.2
Food—packaged goods	21.8
Recreation—luxury	21.6
Personal services	21.5
Retail—discount, drugs	20.9
Food—confections	20.4
Insurance	20.3
Savings and loans	19.0
Metals fabrication	18.4
Nasdaq Index	18.0
Railroads	18.0
Metals—iron, steel	18.0
Communications	17.8
Publishing	17.6
Housewares, furnishings	17.3
S&P Industrial Index	17.3
Machinery—light equipment	17.3
S&P 500 Index	16.9
Investments	16.6
Dow Jones Industrial Average	16.5
NYSE Index	16.0
Media General Stock Index	16.0
Rubber, plastic	16.0
Health	15.7
Banking	15.5
Recreation—broadcasting	15.5
Multi-industry	15.4
Business services	14.9
Precision instruments	14.8
Retail—miscellaneous	14.1
Freight, shipping	13.9
Automotive	13.6
Electronics	13.1
Oil, natural-gas services	13.1
Paper, packaging	12.8
Retail—apparel	12.8
Chemicals	12.7
Aerospace	12.7
Building	12.1
Real-estate investing	11.9
Oil, refining, marketing	11.3
Building—heavy	11.3
Tobacco	10.9
Airlines	10.2
Real estate	10.0
Food production	9.6
AMEX Index	9.5
Foods—meats, dairy	8.8
Retail—food stores	8.7
Recreation—movies, sports	8.7
Oil, natural-gas production	8.5
Hotels, motels, restaurants	7.4
Retail—department stores	7.1
Metals—nonferrous, coal	6.0
Utilities—gas, other	5.8
Textiles—apparel	5.5
Distillers—brewers	5.3
Utilities—electric	4.1
Textile manufacturing	-1.2
Shoes, leather	-2.6
Metals—rare	-8.3

SOURCE: MEDIA GENERAL FINANCIAL SERVICES

EDUCATION

Tax Break For College Courses May Resurface

By Gloria Gibbs Marullo

Employers are once again in a quandary over the tax treatment of company-paid education for employees. The on-again, off-again educational-assistance exclusion allowed employers to reimburse an employee for up to $5,250 in undergraduate college costs per year without having to add the amount to the employee's taxable income. Congress allowed the educational tax break to expire for courses beginning after May 31.

Permitting the expiration didn't make good business sense to Bipin Doshi, president of Schafer Gear Works Inc. in South Bend, Ind. He encourages his 110 employees to pursue college or technical degrees by having the company pay their tuition.

Says Doshi: "Nationwide, the need for trained workers gets more critical each year. Congress may have saved some money short-term by letting the exclusion expire, but in the long run we'll all suffer."

Without the exclusion, some employees will have to pay federal, state, and FICA taxes on the cost of company-paid education, but others can still go to school on the company's nickel and not have to pay a dime in taxes. That's because in addition to the expired educational-assistance exclusion, there is another way to avoid taxes on company-paid education costs: the "working-condition fringe benefit."

If a course qualifies as a fringe benefit, the cost does not have to be added to the employee's income. To meet these rules, the course must help the employee maintain or improve skills in his current position but cannot qualify him for a new line of work. Courses that help an employee meet the "minimal education requirements" of a position are also disqualified.

For courses that meet the fringe-benefit rules, there is no limit on the amount of tax-deductible tuition a company can pay per employee per year, and the courses may be undergraduate or graduate.

For example, say you have an engineer who wants to take $7,000 in graduate engineering courses that will help him in his job. The entire cost of the courses most likely would qualify as a working-condition fringe benefit and would not affect the employee's taxable income.

Down the hall, an accountant wants to specialize in corporate taxation through either a law degree or an MBA with an emphasis on taxation. If she chooses law, the company-paid tuition must be added to her W-2 income because she would become qualified for a new line of work as a tax attorney. If she went for the MBA, however, the courses probably would be classified as a fringe benefit because MBA classes typically do not train students for a new line of work.

Now assume that your company requires all salespeople to have a college degree and that you've hired a salesman with the understanding that he'll take the four marketing courses he needs to finish his degree. Even though the courses are job-related, they fail to meet the fringe-benefit rules because the employee needs them to meet the minimal education requirements of the sales position. Thus, company-paid tuition would be taxable.

Confused? Congress attempted to simplify the rules by creating the educational-assistance exclusion. It simply required that courses would improve the capabilities of the employee. For example, the tuition for a secretary in an advertising agency who was taking courses in architecture would have qualified under the educational-exclusion rules, even though architecture has no relation to advertising.

The cost of the salesperson's undergraduate marketing courses—which failed the "minimal educational requirement" test under the fringe-benefit rules—also would have been tax-free under the educational-assistance exclusion.

For many firms, the simplicity of the educational-assistance exclusion made it attractive. At Laidig Inc., a Mishawaka, Ind., company that makes industrial and agricultural loading machinery, Tom Lindenman, vice president of manufacturing and engineering, offers to pay for tuition and books for the firm's 50 employees.

Lindenman notes that the fringe-benefit

PHOTO: ©HANS SCOTT

A tax exclusion *for employer-provided educational assistance is a good idea that deserves to be revived, says Bipin Doshi, president of Schafer Gear Works in South Bend, Ind.*

Gloria Gibbs Marullo is a CPA and business writer in South Bend, Ind.

rules discourage employees from learning a new trade. But broadening employees' skills is precisely what Lindenman is trying to accomplish and the reason he preferred the educational-assistance exclusion. "We're a small company, and we try to cross-train our employees."

While the fringe-benefit rules are a permanent part of the tax code, the educational-assistance rules have been enacted with expiration dates since they were first added to the code in 1978. Congress has reinstated the exclusion eight times, each time making it retroactive to the date it had expired. The eighth reinstatement was enacted last year for the period of Dec. 31, 1994, through May 31, 1997. Under that reinstatement, however, graduate courses begun after June 30, 1996, did not qualify for the exemption.

A broad coalition of business and educational groups, including the U.S. Chamber of Commerce, has been lobbying to revive the tax break as Congress works out details of the balanced-budget agreement.

The educational-assistance tax break has expired eight times since 1978.

Their efforts are paying off. In separate bills, the House and Senate have voted to restore the educational-assistance tax break. But there are substantial differences.

The House bill would extend the deduction through the end of the year and apply it only to undergraduate educational costs. The Senate bill would make the deduction permanent and cover graduate courses as well.

During July, a conference committee made up of members of both houses was to attempt to resolve all differences in the balanced-budget package before Congress' adjournment for the month of August. ■

HEALTH INSURANCE

An Extra Layer Of Paperwork

Managing your company's health-insurance plan got more complicated in June. That's when new regulations took effect under a 1996 law that guarantees workers greater access to health insurance as well as greater portability and renewability of coverage.

In effect, the guarantees require that employers keep records of all employees and dependents covered under the company's health plan—including exact dates of each person's coverage—so that certificates of coverage can be provided if an employee leaves the company.

Under the Health Insurance Portability and Accountability Act, signed by President Clinton in August 1996, employers' health-care plans cannot exclude a new worker's pre-existing condition from coverage for more than 12 months. Before the law's enactment, some health plans excluded pre-existing conditions permanently.

Moreover, the 12-month limit on excluding pre-existing conditions is shortened by the length of any period of continuous coverage the individual had with his or her previous employer. Continuous coverage is that which is not interrupted for more than 63 days.

To document previous coverage, new employees must be able to provide a certificate of coverage, which is obtained from the previous employer. Anyone who has had health insurance since July 1, 1996, is eligible for a certificate. Thus, a person changing jobs today and covered by a health plan since July 1, 1996, would not have to wait for a new health plan to cover a pre-existing condition.

For companies with 20 or more employees, certification statements detailing when the employee and any dependents were covered under a previous plan must be provided to the worker within 14 days after his or her departure. Firms with fewer than 20 employees must provide such certificates "within a reasonable time frame," according to the law. The certificates are the responsibility of the employer, the insurer, and/or the group health plan—such as a health-maintenance organization. Failure or refusal to provide the certificate can result in penalties of up to $100 per day after the notification deadline; penalties will not be imposed until 1998.

PHOTO: T. MICHAEL KEZA

Providing *health-coverage certificates to former employees will mean headaches for small businesses, says Dan Schaeffer, vice president of a cellular-phone firm.*

In addition, health-plan administrators must notify all individuals who lost coverage on or after Oct. 1, 1996, of their new rights regarding exclusions for pre-existing conditions.

"This [certification requirement] is going to come as a shock to a lot of small businesses when an employee who left months ago calls and asks for one of these certificates," says Dan Schaeffer, vice president of Executive Cellular and Paging in Severna Park, Md., a company with six employees. "Aside from all the red tape," he says, "we'll have to spend more time and money administering our plan, and our premium costs will go up because, nationally, many more people will be eligible for benefits."

The requirement to provide certificates of coverage to former employees took effect June 1. The remaining provisions of the law take effect for the first "health-plan year" starting after June 30. For example, if your firm's next health plan starts Jan. 1, 1998, the new law does not apply to your company until then.

Most health-care insurers will eventually have printed materials explaining how the new certificates work, says Arnold Masinter of Benefit Plan Administrators in Roanoke, Va. He advises business owners to get in touch with their insurers to see what educational materials they offer.

The U.S. Department of Labor offers a booklet on the new law. To obtain a copy, call 1-800-998-7542. The booklet can be downloaded from Labor's World Wide Web site at *http://www.dol.gov/dol/pwba.*

—Peter Weaver

The author is a free-lance business writer in Bethesda, Md.

REGULATION

OSHA Is Moving On Ergonomics Rule

Business says the agency's evidence is insufficient to justify new health-related requirements for firms.

By David Warner

For eight hours a day, a worker places part A on part B at the local widget factory. After work, he goes bowling, plays softball, or just sits on his couch and watches television. One day, he develops pain in his shoulder. Is the pain a work-related, repetitive-motion injury? Or is it the result of too much bowling, too many long throws from third to first base, or, perhaps, too little exercise?

The federal Occupational Safety and Health Administration says that work activities are causing musculoskeletal disorders, such as carpal tunnel syndrome, tendinitis, and other severe muscle pains.

Gregory Watchman, acting director of OSHA, maintains that the evidence that certain job tasks cause "repetitive-stress injuries" is sufficient to require a regulation. "Repetitive-stress injuries are the biggest workplace health problem in the country today," he says.

PHOTO: STERRY ASHE

> "Repetitive-stress injuries are the biggest workplace health problem."
>
> —Gregory Watchman, Acting Director, OSHA

OSHA is working on a standard on ergonomics—the relationship between workers and the work environment—that could be ready for public comment later this year or early next year, according to Watchman.

If that standard resembles a 1995 draft proposal, as indications suggest, business will be facing new mandates to design workplaces that are ergonomically correct—that is, workplaces that are comfortable for workers.

"This [standard] could cause a lot of companies to shift resources to address ergonomics," says Laurie Baulig, co-chair of the National Council on Ergonomics, a coalition of businesses and organizations, including the U.S. Chamber of Commerce, that oppose a federal ergonomics standard.

The degree to which firms might have to use resources to comply with an ergonomics rule is not known. OSHA estimated that its 1995 draft proposal would have cost businesses $4.5 billion annually.

However, a study conducted by National Economic Research Associates in San Francisco for the American Trucking Associations found that the regulation would have cost the trucking industry alone $6.5 billion a year.

PHOTO: T. MICHAEL KEZA

> "Let's understand the science before we jump into a regulation."
>
> —Laurie Baulig, Co-chair, National Council on Ergonomics

Risks And Limits

OSHA's draft standard, stymied by congressional opponents in 1995 and 1996 when lawmakers denied the agency funds to implement the proposed ergonomics rule, included as its cornerstone a set of risk factors with corresponding limits that employers would have been required to identify in their workplaces. The risk factors and limits included:

- Performing the same motion or pattern of motions for more than two hours at a time.
- Using for more than two hours a day tools or machines that cause vibrations.
- Handling manually more than once in a work shift an object that weighs more than 25 pounds.
- Working in fixed or awkward postures for more than two hours a day.
- Performing for more than four hours at a time work that is mechanically or electronically paced.

Under the 1995 draft proposal, if certain factors were present in the workplace, employers would have been required to redesign jobs that had those identified risks to fall within limits that OSHA deemed acceptable. Ergonomic education and training for employees also would have been required.

OSHA's Watchman says the agency has scrapped the 1995 draft proposal, but he acknowledges that any standard likely will include the risk factors.

Some critics of OSHA's draft rule expect the agency either to act in a very proscriptive manner—setting maximums on repetitive motions, for example—or to take a programmatic approach, simply requiring employers to minimize or eliminate what OSHA calls "recognized" ergonomic hazards, such as repetitive motions, awkward postures, and heavy lifting.

The problem with a proscriptive rule, says Robb Mackie, vice president of government relations for the American Bakers Association, is that OSHA cannot answer the questions of how many repetitions are too many or how much vibration will cause musculoskeletal pain. Until the agency has those answers, he says, "it will be very difficult for OSHA to come up with a standard."

The bakers' association, which includes 350 companies with more than 500,000 workers, is part of the National Council on Ergonomics.

A programmatic approach probably would be unconstitutionally vague, says the ergonomics council's Baulig. "You would

leave tremendous discretion in the hands of an OSHA inspector to determine whether or not an employer has fixed a problem."

Questions Of Evidence

Regardless of the approach OSHA takes in writing a standard, business argues that there is no evidence that work-related activities cause major musculoskeletal disorders, if any. Says Baulig: "There are a lot of things we don't yet understand about repetitive-stress injuries. All we are saying is let's understand the science before we jump into a regulation."

Much of the medical community agrees. Dr. Dean S. Louis, chief of orthopedic hand surgery at the University of Michigan Hospitals in Ann Arbor, says there is little or no scientific evidence that work-related activities cause musculoskeletal disorders.

"There is insufficient scientific evidence to make the association, a cause-and-effect relationship" between work and musculoskeletal symptoms, says Louis, who is president of the American Society for Surgery of the Hand. Other factors that may contribute to musculoskeletal disorders, he says, include activities apart from work, physical characteristics such as weight, and whether an individual smokes.

But Dr. Laura S. Welch, a specialist in occupational and environmental medicine at the George Washington University Medical Center in Washington, D.C., says there is a link between work and repetitive-stress injuries. "The overall data does support a causal relationship between work factors and musculoskeletal disorders," she recently told the House Education and Workforce Subcommittee on Workforce Protections during a hearing on OSHA's proposed ergonomics standard.

Louis, however, notes that the epidemiologic studies used by OSHA to justify an ergonomics rule merely looked at reported cases of work-related musculoskeletal disorders, not at medical diagnoses of such injuries.

The Facts And Figures

According to figures from the U.S. Labor Department's Bureau of Labor Statistics, repetitive-stress injuries aren't the big workplace problem that OSHA contends they are. Only 4 percent of injuries and illnesses that resulted in absences from work in 1995 were reported to be caused by repetitive motions. The numbers are based on OSHA injury and illness logs filled out by employers.

Reported cases of "soft-tissue" injuries, which include repetitive-stress injuries, did begin to creep upward starting in the early 1980s. Richard Butler, a professor of insurance at the University of Minnesota, notes that one possible reason for the rise has nothing to do with work. "There was a rise in soft-tissue injuries in the '80s that coincided with the expansion of HMOs," says Butler, who published his findings in *The Journal of Health Economics.*

Nonfatal Occupational Injuries And Illnesses Resulting In Lost Workdays, 1995

	Cases Per 10,000 Workers	Percentage Of Total Cases
Bodily Reaction And Exertion		
Overexertion	69	27%
Bodily reaction (slip, twist)	26	10
Repetitive Motion	**10**	**4**
Other	4	2
Contact With Objects And Equipment		
Struck by object	33	13
Struck against object	18	7
Caught in or compressed by equipment or objects	12	5
Other	6	3
Falls		
Fall on same level	28	11
Fall to lower level	13	5
Other	1	1
Exposure To Harmful Substances Or Environments	13	5
Transportation Incidents	9	4
Assaults And Violent Acts	4	1
All Other	4	2
TOTAL	250	100%

SOURCE: U.S. BUREAU OF LABOR STATISTICS

He says that doctors in health-maintenance organizations who diagnose musculoskeletal pain as work-related repetitive-stress injuries receive a fee-for-service payment from state workers' compensation systems as well as their usual per-patient fee under the HMO plan.

There also is evidence, says Butler, that some workers are reporting musculoskeletal injuries as workers' comp claims to avoid copayments or deductibles they would have to pay if the injuries were covered under health-care plans; workers' comp covers all medical expenses and reimburses workers for part of their pay for lost work days.

OSHA Is Determined

Despite the lack of a scientific consensus on the causes of musculoskeletal disorders and the possibility that some of the reported disorders are being misclassified for economic reasons, OSHA seems determined to go forward with an ergonomics rule.

OSHA is being encouraged strongly by the AFL-CIO to proceed with an ergonomics standard. The labor federation has made adoption of an ergonomics rule its top safety and health priority.

While OSHA is working on a federal ergonomics regulation, the states also are beginning to look at the issue.

California's workplace safety and health agency adopted an ergonomics standard that took effect July 3. The rule, the first among the states, requires public and private entities that employ 10 or more workers to conduct ergonomic education and training, to do ergonomic evaluations of each work site, and to correct ergonomic hazards if there have been at least two reported repetitive-motion injuries involving identical job processes or activities in any 12-month period.

Several groups, including the American Trucking Associations, a member of the National Council on Ergonomics, are suing the California Occupational Safety and Health Standards Board to overturn the rule. A court hearing is expected in September.

If OSHA succeeds in promulgating an ergonomics standard, the cost to business could be more than just dollars, says the ergonomics council's Baulig. "The downside about this for workers," she says, "is that a lot of times the ultimate ergonomics solution is to eliminate jobs and automate. A machine can't get carpal tunnel syndrome." NB

Small Business Technology

Weeding out the sites; making video magic; faxing, printing, and scanning.

By Tim McCollum and Albert G. Holzinger

THE INTERNET

Finding More By Seeing Less

The Internet has grown so much that it has become downright difficult for people to find information. The World Wide Web alone now features more than 300,000 sites, and even when users call on a typical search engine such as Yahoo to cut through the clutter, the search engine often responds with thousands of extraneous sites.

Now, however, several new—and free—tools may improve the quality of many information searches. The idea behind them is to reduce the number of Web sites actually searched by filtering out those that aren't likely to contain relevant information.

The premise underlying LocalEyes, for example, is that most businesses and consumers want information about companies in their community. In other words, what these people want is a local business directory containing more than just phone numbers. So LocalEyes has weeded out nonbusiness Web sites—personal home pages, for example—and has mapped the remainder geographically.

Users select the city they want to search and provide a key word for the service or product category they are looking for, such as doctors, lawyers, groceries, or sporting goods. LocalEyes responds with a short list of germane businesses, including names, addresses, phone numbers, and Web-site links if available.

LocalEyes currently has more than 11 million business listings in more than 2,000 U.S. communities. It's available at *www.localeyes.com.*

LookSmart *(www.looksmart.com)*, a subsidiary of the Reader's Digest Association, is based on the notion that people are interested in only those Web sites that provide unique, high-quality information.

The result of LookSmart's search for the best of the Web is some 150,000 sites that can be explored several ways. For example, a user can browse through general subject categories such as business, computers, health, shopping, and travel, and through more-specific subcategories that lead to concise lists of relevant sites.

The "favorites" section offers links to news, magazines, software, shopping, and entities in the user's home city. There's also a more traditional search engine that allows a user to search LookSmart reviews or the entire Web using key words.

Free tools *such as these can improve the quality of your Internet information searches.*

For those who want a personal information editor, there's WiseWire, *www.wisewire.com.* When you use WiseWire for the first time, you create an intelligent software "agent" by providing interests and preferences. Then, when you request information using key words, the agent provides a list of suggested links based in part on the ratings of other users with interests and preferences similar to those you've expressed.

By examining the links that you, in turn, discard as irrelevant, the agent becomes "smarter," and search results become ever more precise. ■

FAXING

A Power Tool For Messaging

The fax-software component of Microsoft's Windows 95 operating system meets the occasional fax needs of most home and some small-business users, but entrepreneurs who do a lot of computer-based faxing soon discover that they need more-robust, feature-rich software. That's where Symantec Corp.'s WinFax PRO 8.0 comes in.

The new version *of WinFax PRO is robust and rich in features yet easy to use.*

WinFax PRO has been around for a while. Earlier versions had some problems, notably the slow speeds at which they loaded, but Symantec seems to have addressed them in the current version.

For example, WinFax now features a Controller, which is accessed through an icon that appears in the Windows 95 task bar. Mouse-clicking the Controller provides instant access to common features of the program such as sending faxes and viewing incoming faxes without launching the entire program.

Even when it's necessary to launch the full program—to set up a fax-on-demand system, for example—the operation is faster than ever.

The WinFax PRO software not only can tackle virtually any fax-related chore but also can enable your computer to double as a sophisticated voice-mail system—provided it's equipped with a voice-enabled modem and, preferably, a sound card. ■

VIDEO

Look Like Spielberg For A Pittance

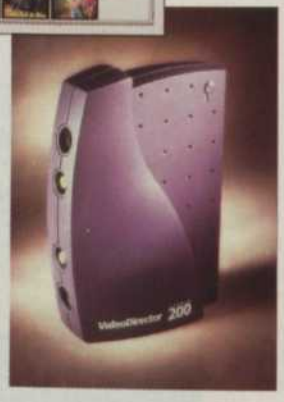
Incorporating photographs and graphics into business presentations is relatively simple. All it takes is a scanner, inexpensive touch-up software such as Adobe Systems Inc.'s PhotoDeluxe, and a bit of computer intuition. But adding video, the stuff of which eye-popping presentations are made, generally requires hardware and software whose installation and operation are best left to the very technically minded.

An exception to this rule is a new graphics board called the All-In-Wonder, manufactured by ATI Technologies Inc. The name accurately reflects this product's tremendous ability to handle any video-related task—and handle it well.

This easy-to-install board, which replaces a computer's existing video card, allows even a video novice to capture still or moving images from a camcorder, videocassette recorder, or television. It comes with Macromedia Inc.'s Director software, which is an industrial-strength tool for creating multimedia presentations. You can connect the board to a big-screen TV and stereo sound system for office-based extravaganzas.

With the All-In-Wonder *card, TV images can be captured on a personal computer.*

Moreover, the All-In-Wonder model featuring 4 megabytes of memory will test the limits of your computer monitor with its ability to display two- and three-dimensional graphics at blazing speeds. Surprisingly, this video equivalent of the Swiss Army Knife is available at retail stores for less than $300.



VideoDirector Studio 200 *provides tools for making professional productions.*

Those interested only in making promotional or training videos should consider a different $300 tool, the VideoDirector Studio 200 from Pinnacle Systems Inc.

This compact device is connected to a computer's printer port, a camcorder, and a VCR. Related software that's surprisingly easy to install and use enables creation of professional-quality productions featuring slick titles, smooth fades and dissolves, and custom soundtracks and narrations. Also included is a useful library of graphics, sounds, music, and title typefaces. ■

BITS AND BYTES

Monorail PC

Small firms with tight technology budgets will find much to like about the innovative Monorail PC from Monorail Inc. At retail prices starting at $999, the Monorail provides most of the features of desktop PCs, including an ample 16 megabytes of memory, a 1-gigabyte hard disk, a four-speed CD-ROM, a 33.6-kilobits-per-second modem, 16-bit audio, and Microsoft's Windows 95 operating system. But unlike normal desktop computers, the Monorail's unique all-in-one design incorporates a 10.4-inch or 12.1-inch flat-panel color display similar to those found on notebook PCs.

The Monorail comes with a 75-megahertz (MHz) processor by Advanced Micro Devices Inc., which can be upgraded to a 133-MHz or a 200-MHz Intel Pentium processor by firms needing more computing power.

A version called the Monorail NPC is equipped with an Ethernet card for connection to a computer network. Monorail NPC works on networks running Microsoft Windows NT and Novell NetWare, and it comes with software that allows it to be managed and maintained by a firm's computer technicians over a network.

Monorail PC *from Monorail Inc.*

Umax Astra 1200S Scanner

Scanners are becoming indispensable tools for small firms that want to quickly combine text, graphics, and photos for business presentations, marketing materials, and World Wide Web sites.

Umax Technology Inc.'s Astra 1200S color flatbed scanner provides small companies with a workhorse image-input device at retail prices starting at $449.

The scanner uses technology known as bit enhancement to capture the colors and tones of documents with great fidelity. It can handle letter- and legal-sized documents up to 8½ by 14 inches.

The Astra 1200S can be attached to Apple Macintosh and Windows-compatible PCs. It comes with Presto! PageManager scanner-management and OCR (optical character recognition) software from NewSoft Inc. and a choice of Adobe PhotoDeluxe or Photoshop photo-imaging software.

Lexmark 7000 Color Jetprinter

Lexmark International Inc. uses a laser to cut precisely the ink-spray nozzles of its new model 7000 printer. As a result, the 7000 can achieve a high resolution—1,200 by 1,200 dots per inch on special coated paper.

Lexmark 7000 *color printer from Lexmark International Inc.*

As you would expect, the quality of photographs and other full-color materials printed on the 7000 at up to three pages per minute is very good.

Black output is of extraordinary quality and unusually fast—up to eight pages per minute.

The software included with this $400 printer also is quite good. It includes programs for editing and organizing photos and a control panel that displays information such as the amount of ink left in the printer's black- and color-ink cartridges. NB

FINANCE

One Giant Step Toward A Loan

Contrary to popular belief, some banks do lend money to start-up firms. A good business plan can make the difference.

By Susan Hodges

David Cupp dared to be different. Instead of using personal savings to start his firm—Photos Online, Inc., in the Columbus, Ohio, suburb of Hilliard—Cupp did what many new business owners never even try: He went to a bank and applied for a loan.

It took him five tries at five banks over nearly seven months, plus countless hours of refining his business plan, but in the end he came away a winner. In March 1995, Bank One, Columbus, approved a $26,000 term loan for Cupp and also granted him a $24,000 line of credit.

Bank One's decision was unusual because the bank didn't require a loan guarantee from the U.S. Small Business Administration. The SBA guarantees bank loans (though not lines of credit) for small firms that meet strict financial and documentation criteria. Knowing this, bankers almost always require an SBA guarantee before they will even consider lending money to a start-up.

But Cupp, whose revenues totaled $50,000 last year—his first full year in business—and are projected to top $100,000 this year, took a less traveled road to start-up financing, and it paid off. How did he do it? "With lots of free help from the SBA and a banker who believed in my idea," he says. "Without a good business plan, it wouldn't have happened."

Business plans are documents that tell potential lenders and investors why money is needed, how it will be used to start or improve a company, and how the money will be paid back. But many new owners don't have a business plan and are not sure how to create one.

Cupp was such an owner.

In the fall of 1994, Cupp decided to start his own company. A professional photographer who has done assignments for *National Geographic* and has a degree in journalism, he owns hundreds of thousands of photographs from dozens of freelance assignments around the world. Among his credits is a Pulitzer Prize nomination for a photo chosen for placement aboard a Voyager spacecraft that made an interplanetary flight in the late 1970s.

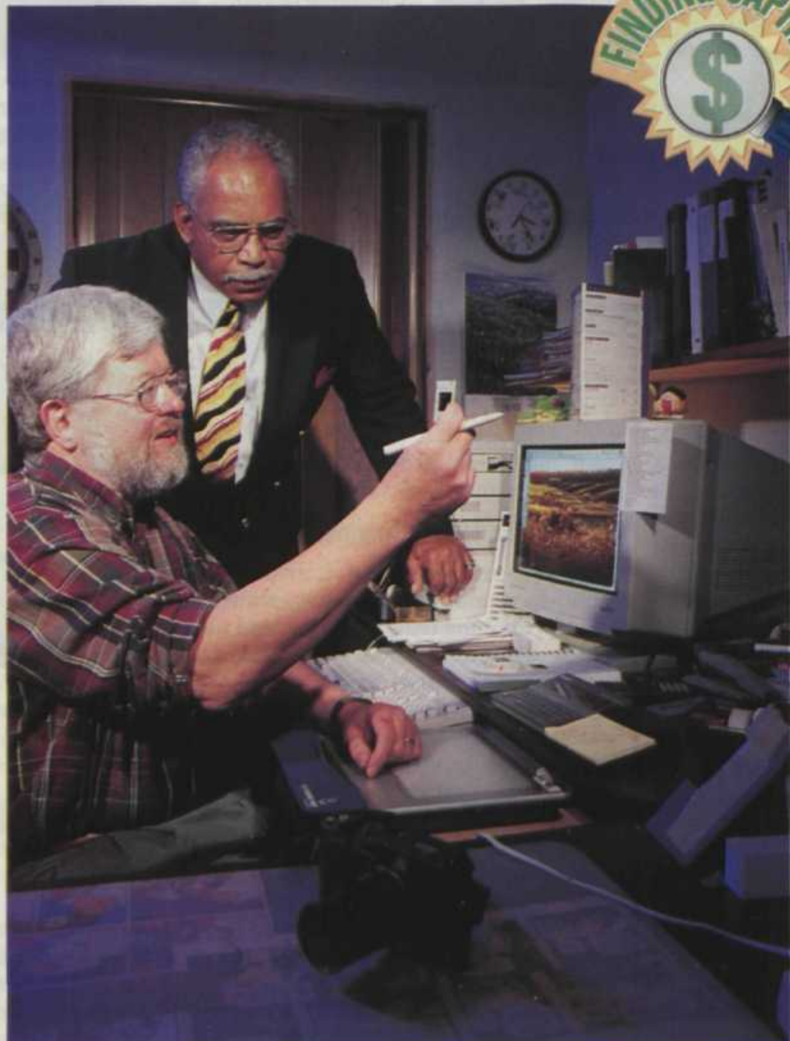


PHOTO: ©LARRY HAMILL—BLACK STAR

Displaying entrepreneurial vision, *photographer David Cupp, left, got $50,000 in start-up funding from banker James R. Grant.*

FINDING CAPITAL

Cupp also has a broad knowledge of the Internet.

"I saw an opportunity to put together an electronic photography stock house in a way that hadn't been done before," he says. But he needed $25,000 for computers and software plus funds for living expenses while he got his business off the ground.

First, Cupp recruited his brother Robert as a partner. A prominent golf-course designer with a successful company in Atlanta, Robert invested $10,000 and agreed to use his business expertise to help launch Photos Online.

Next, Cupp went to the SBA's Columbus office for help. He was asked if he had a business plan.

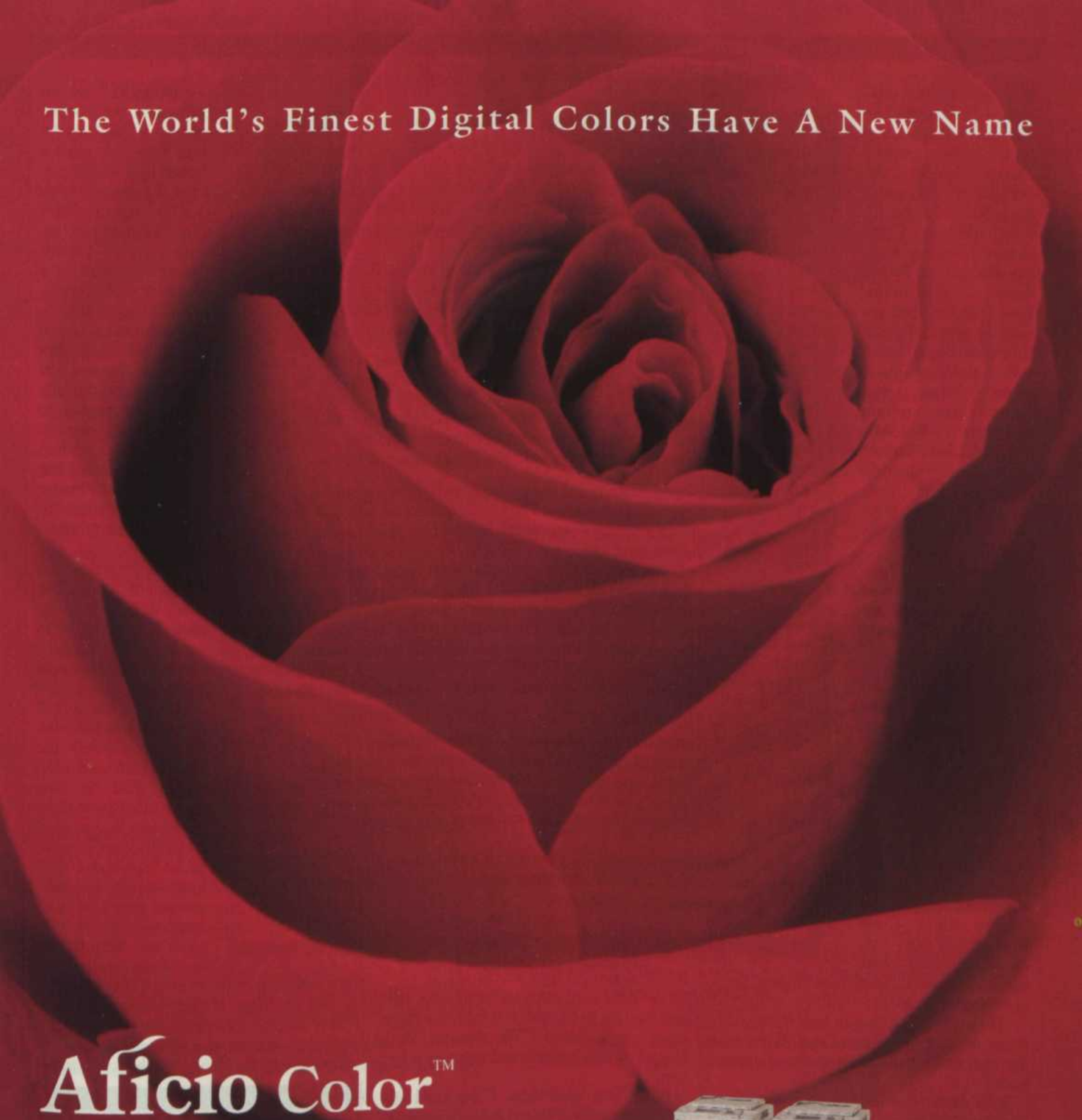
"I said, 'A what?' " recalls Cupp. "I didn't even know what a business plan was."

After attending an SBA seminar on business-plan writing, Cupp met with Harry Long of the SBA's Service Corps of Retired Executives. SCORE members volunteer their time and expertise to individuals who are seeking SBA help with business plans, budgeting, and other matters vital to a company's success. Long is a retired CEO of a Columbus-based wholesale lumber company.

"I told him to write a clear and succinct statement of purpose as well as an opening balance sheet and at least two years of profit and loss projections," says Long.

Cupp balked. "I was lousy at math, and

This story is part of a continuing series on ways that small companies can locate the financing they need to run their businesses.



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this was unlike anything I'd ever done," he recalls. "I don't know how many times Harry made me rewrite my business plan, but it was a lot."

In addition, Cupp began working with tax accountant Wayne Logan, an SBA volunteer. Logan helped assemble the information that Cupp would need by asking questions. What was Cupp's idea, in one sentence? Bankers would read no further than the opening statement if they couldn't understand the business quickly, Logan told him.

"Then I asked, 'If you sold something, how much money are we talking about?'" says Logan. How many photographs could Cupp supply, and how often? How long would it take to sell the first one, and the second?

"The goal is to translate your ideas into dollars," says Logan. "Once your figures are complete, it's a matter of organizing them into a recognizable financial statement."

Four times Cupp thought his plan was complete, and four times he visited different loan officers. Each one rejected his idea.

"They weren't willing to look at my education or experience," says Cupp. "They said my idea was outside their realm of experience."

With each rejection, Cupp returned to the drawing board. Each time he added material, until his plan became a 35-page document containing information such as an analysis of his competition and cash-flow projections.

The fifth banker Cupp approached was more open-minded. "David's idea was certainly new, but his background and work for highly reputable companies meant a lot," says James R. Grant, assistant vice president of Bank One. Grant was impressed with Cupp's photographs and thought that his idea was excellent.

"We believe in start-up businesses here, and we like to be involved from the beginning," says Grant. "We thought David Cupp had the background to make it happen."

Bank One was right. Cupp used the money to make Photos Online a state-of-the-art, electronic stock house. Traditional stock houses market their photos through catalogs and low-resolution compact discs. Customers usually order photos by phone and receive them by mail.

Customers of Photos Online use their computers and the Internet to browse, order, and receive photographs in a single transaction. Customers view photos on-line and then download low-resolution images of the pictures they select.

These "rough drafts" can be used for page design while the customer orders the selected photos on-line.

Customers whose computers are hooked up to a high-speed data line can receive digital files of the pictures. Customers with regular phone lines and modems can receive their photos through the mail on a customized, high-resolution compact disc.

Photos Online is one of just two stock photography houses in Columbus and the only one in the region to offer electronic service. This year, when Columbus becomes one of the first major Midwestern cities to get high-density fiber-optic cable, Cupp, who has the expertise and equipment to use the new technology, expects Photos Online to surge ahead of competitors who lack the technology.

The new cable will allow Cupp to transmit in a few seconds the kind of high-resolution image that he now sends either by mail on a compact disc or electronically over conventional high-speed data lines—which can take several hours. (Customers without the new cable will have to rely on the slower electronic transmission or the mailed CD.)

The marriage of high-density fiber-optic cable and his enterprise "could be the business opportunity of a lifetime," says Cupp. And apparently Bank One thinks so, too. NB

Susan Hodges is a free-lance writer in Takoma Park, Md.

How To Write A Business Plan

If you have never explained your business on paper, here's help to get started. The following four steps are taken from the business plan for entrepreneur David Cupp's Hilliard, Ohio, firm, Photos Online, and from information provided by Bank One, Columbus, and others.

1. **Write a statement of purpose.** If you can't explain your venture in 25 words or less, it's probably not a good idea. Following your explanation, tell how your business will work, who will own it, and why it will succeed.

2. **Describe the business in detail.** Tell what products or services you'll provide and to whom. Discuss the market for your business and the competition. Then explain how your company will be managed and by whom. List their credentials. Tell where your company will be located and why. Also, tell how you'll apply the loan, and list its expected effects.

3. **Supply financial data.** You'll need three years of projected financial statements. They include income, loss, and cash-flow projections—by month for the first year, and by quarter for the next two.

   If you must buy equipment, list the items, their costs, and what you'll use for collateral. Resist using your house and other personal property. Instead, list savings, bank accounts, and vehicles. Include notes of explanation whenever figures seem contradictory or otherwise questionable.

   If you're asking for $50,000 or more, provide quick and current ratios comparing assets to liabilities, with and without inventory.

4. **Attach supporting documents.** Examples include résumés of principals; references from creditors, potential clients, and suppliers; the names of your accountant and attorney; evidence of hazard insurance; a lease agreement, if any; and articles of incorporation, if appropriate.

Then take your plan to a banker. If he or she says no, try another one. A sound plan will eventually find a lender. If you still need convincing, just ask David Cupp.

For Further Reading

Borrowing To Build Your Business: Getting Your Banker To Say "Yes," by George M. Dawson (Upstart Publishing Co., $16.95), covers topics such as selecting the right bank, educating the banker about your business, understanding what a banker fears about your kind of company, and writing a loan proposal. The author, a former banker, is now associated with the Small Business Development Center at the University of Texas at San Antonio.

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Nation's Business
The Small Business Adviser

MANAGING

A Helping Hand On Personnel

For small and large companies alike, contracting with a human-resources consultant can be a good way to get expert guidance on employment issues.

By Janine Latus Musick

Tom Ahlers, a CPA and managing partner with Denman & Co., an accounting and consulting firm in West Des Moines, Iowa, was spending a good part of each day dealing with personnel issues. Among the most time-consuming were employee evaluations.

"It's very difficult to try to be a rainmaker in the firm and still have to pay attention to personnel issues," he says. "It was not a cost-effective way to do things."

So Ahlers and his three partners decided to bring in a team of consultants from HMA, PLUS, a division of Holmes Murphy & Associates, a Des Moines-based insurance company. HMA, PLUS specializes in helping businesses set up and maintain efficient human-resources functions.

HMA helped the management team of the 40-employee Denman firm define exactly what it wanted from employees. Then it helped the managers write accurate job descriptions, created a hiring manual, and helped train the partners and the managers in effective communication and team-building skills. HMA also reviewed and updated Denman's personnel handbook and policies. The whole process took about a year and a half.

"We all went to school to be bean counters," Ahlers says, "and being a bean counter doesn't necessarily make you qualified to run the people side of the business."

A Consultant's Role

Human-resources consultants such as those at HMA are helping companies of all sizes with their most important investment: their employees.

Some consultants work for the human-resources divisions of insurance companies, but others are independent or are members of a small firm. Many were executives at downsized corporations and bring with them the training and experience necessary to run a large company.

Hiring a benefits consultant can make good business sense for small firms that don't need or can't afford a full-time benefits specialist. The firm can contract with someone to help set up employee policies, then train managers to implement those policies.

The employer usually has the option of putting the consultant on retainer to answer any questions that arise.

Another advantage of hiring a consultant is that the employer can contract with someone who has expertise in a specific area. For example, if a firm wants to establish a policy for drug and alcohol testing, it needs someone familiar with the relevant state and federal laws.

U.S. Department of Transportation regulations require many employers engaged in commercial transportation to have workplace drug-testing programs. And companies that have federal contracts are required by law to keep their workplaces drug-free.

A temporary benefits administrator could be the solution for a company that needs someone to handle the paperwork in setting up life-insurance, retirement, disability-insurance, and health plans.

Another circumstance in which a company might find that a human-resources consultant is its best alternative is if the firm has to hire many employees in a short time. A company might have a big project come in on a tight deadline, for instance, or its peak season is just around the corner; in such cases, a temporary consultant can be contracted to screen prospective employees and handle the paperwork.

PHOTO: ©JIM HEEMSTRA

Accounting-firm partner *Tom Ahlers' personnel-issue distractions ended when consultants Mary Hultman, center, and Sharon Ward established company procedures.*

When To Begin

Dave Haring, a consultant with Professional Performance Inc. of Grand Rapids, Mich., says that for most firms, it's never too soon to consider hiring someone

to provide guidance on personnel and benefits issues: "If business owners start out with someone who has human-resource experience, they can keep themselves from mistakes that could lose them a lot of money in the long run."

By the time a company has more than 40 employees, it typically requires a full-time human-resources specialist to meet employment-related challenges, says Barry M. Bograd, vice president of Strategic Outsourcing/Romac International in Boston.

Companies of all sizes need expert advice on complying with state and federal employment laws. Even the smallest firms must comply with laws governing minimum wage, overtime, occupational safety and health standards, and discrimination.

Once a company has 15 workers, it must comply with the Americans with Disabilities Act, which prohibits discrimination against the disabled, and with Title VII of the Civil Rights Act, which bans discrimination on the basis of age, sex, race, and religion.

Companies with 20 or more workers must comply with the Age Discrimination in Employment Act, which outlaws discrimination against workers over 40.

Employers with 50 or more workers are subject to the Family and Medical Leave Act, which requires employers to grant up to 12 weeks of unpaid leave a year for the birth or adoption of a child or for a serious health condition of a worker or family member.

Moreover, state antidiscrimination laws often apply to firms with just one employee. And the state laws may be broader in scope than federal laws, providing protection to additional groups.

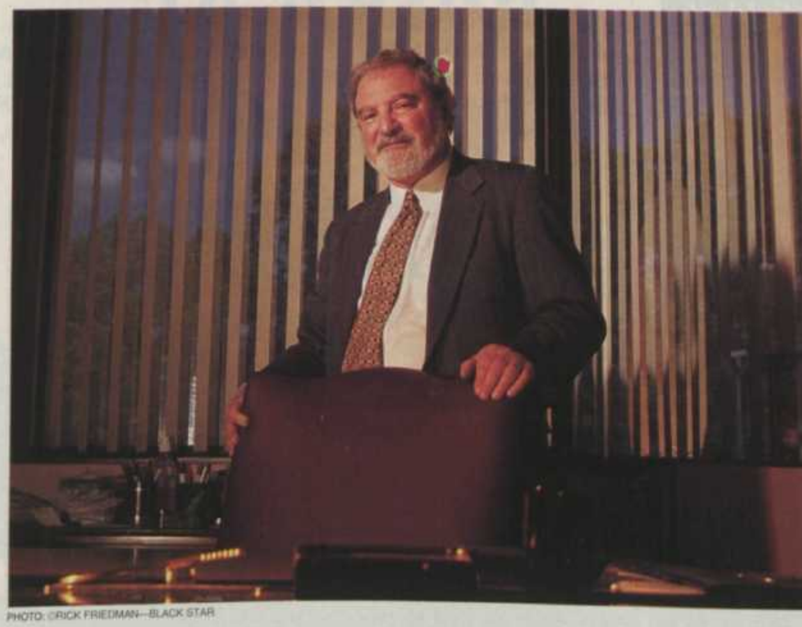

PHOTO: ©RICK FRIEDMAN—BLACK STAR

By using *human-resources consultants, a company can draw upon diverse experts, says outsourcing authority Barry M. Bograd.*

Staying In Bounds

Compliance issues typically are covered in the company's handbook of employment policies. The handbook should include an "employment at will" statement that says you can hire or fire—or an employee can quit—at any time.

Nonetheless, firing an employee can trigger a lawsuit if the dismissal violated federal, state, or local fair-employment laws. (See "Just Cause: The Seven Key Tests," below.) Thus, compliance with employment laws is crucial for a company—and it's a task that requires a working knowledge of complex regulations and completion of reams of paperwork.

"Small firms may have one human-resource person who's not an expert in every one of the functions," Bograd says. "Using [consultants], you can bring in experts in each area."

Mary Hultman, an employment-practices consultant at HMA, says that "in some ways, I think the small employers are more at risk" of running afoul of employment laws than are large firms. "They may have a closer-knit staff, they're not as diversified, and so things like discrimination can be more of an issue. They also typically have less training, and less-formalized human-resource practices, so they are more vulnerable to a claim. And one claim can affect the very viability of a company."

Concepts And Costs

A common first step in working with a human-resources consultant is a work-

Just Cause: The Seven Key Tests

You're just about to fire an employee, but do you have just cause?

One way to determine that is by asking yourself these seven basic questions, as presented in *Just Cause, The Seven Tests* (Bureau of National Affairs, $58), by Adolph M. Koven and Susan L. Smith. The book explores the reasons for and methods of disciplining employees.

1. Notice: Did you give the employee forewarning of possible consequences of the employee's conduct?

2. Reasonable Rule Or Order: Was your managerial order or rule reasonably related to the orderly, efficient, and safe operation of your business? Was it one that could reasonably be expected of the employee?

3. Investigation: Did you make an effort to find out whether the employee did in fact violate or defy a rule or order?

4. Fair Investigation: Was your investigation conducted fairly and objectively?

5. Proof: Did that investigation turn up substantial evidence that the employee was guilty of the infraction?

6. Equal Treatment: Have you applied your rules, orders, and penalties even-handedly and without discrimination?

7. Penalty: Was the degree of discipline administered reasonable, given the seriousness of the proven offense and the employee's record of service?

If you can answer "yes" to all seven, you have just cause to discipline or fire the employee. If you answered "no" to even one question, you should examine whether you have discriminated against the employee.

place audit, in which your current employee policies—written or nonwritten—are examined for discrimination concerns and efficiency.

The consultant will determine if the company's handbook—if one exists—clarifies expectations and benefits, or whether the employer even knows exactly what is expected of employees. The firm's personnel files will be inspected to make sure they are in compliance with state and federal employment laws.

If there is no employee handbook or if it is judged to be deficient, the consultant will help to define the company's expectations and to create a handbook that spells them out for workers.

By using human-resources consultants, an employer can draw upon a lot of expertise for the money, and the expense ends when the project is over.

The cost of a human-resources consultant depends on the job. If a company wants to set up a compensation plan, for instance, it may have to pay about $125 an hour, says Bograd. A recruitment project will cost about $50 an hour, and customized training projects run about $1,500 to $2,000 a day.

"The more esoteric the function, the more it's going to cost," says Bograd, who adds that prices also vary according to region.

Generally, there is a set price for an individual project such as an employee handbook, job descriptions, or performance-appraisal forms, plus a per-hour cost for any additional consulting required or for projects that prove to be exceptionally time-consuming.

An employer can get a lot of knowledge for the money, though, and the expense ends when the project is completed. Compared with what an employer might spend in dealing with a discrimination claim, consulting services can be worth the cost.

Getting Started

Finding a consultant is generally easy. Keith Greene, director of chapter relations for the Society for Human Resource Management (SHRM) in Alexandria, Va., says 90 percent of consultants' business comes through referrals. So a good place to start is by asking business associates for references.

In addition, many insurance companies have human-resources outsourcing divisions; their thinking is that by educating the employers they insure, they can help cut down on employment-related claims. Another place to find help is in the Yellow Pages under "Personnel Consultants."

If you can't find a referral locally, you can request one from the SHRM at 1-800-283-7476, Ext. 4710, or through the organization's World Wide Web site, *www.shrm.org*. The SHRM has 86,000 members nationwide; more than 3,000 of them are independent consultants. About 40 percent of those consultants specialize in working with small businesses.

"Employers can call in and request based on geography and/or areas of expertise," Greene says. "They can say, 'I'd like someone to handle my entire HR function,' or they can say, 'I'm a small business. I'd like someone to come in and design a compensation schedule for my 20 employees.'"

Either way, an employer might find it cost-effective to bring in someone to handle the people problems—even if the employer isn't a bean counter. NB

Janine Latus Musick is a free-lance writer in Columbia, Mo.

Versatile Helpers

Here are the types of assistance that human-resources consultants typically can provide:

- Review personnel files, application forms, job descriptions, and benefits statements to make sure you're not running afoul of state or federal laws.
- Help you develop employee handbooks that define job expectations and benefits.
- Help you set up a pay scale that is reasonable for your industry and market.
- Help you recruit and select employees.
- Interview candidates or teach you how to interview them effectively. (Some consultants will provide a list of questions.)
- Walk new employees through benefits paperwork.
- Help train new employees and/or work on continuing training for employees.
- Design performance-review forms and outlines for evaluation interviews.
- Answer questions about proper termination procedures.
- Design customized training for management and staff.

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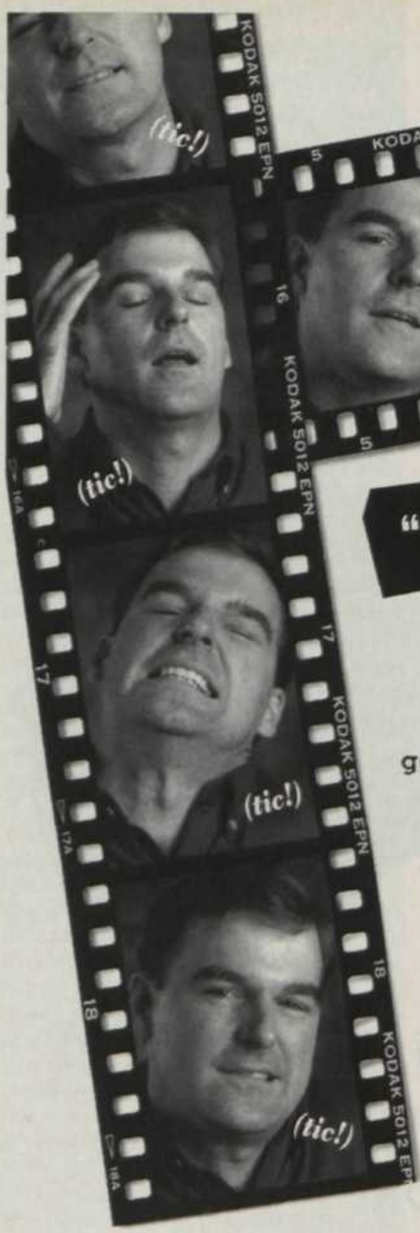

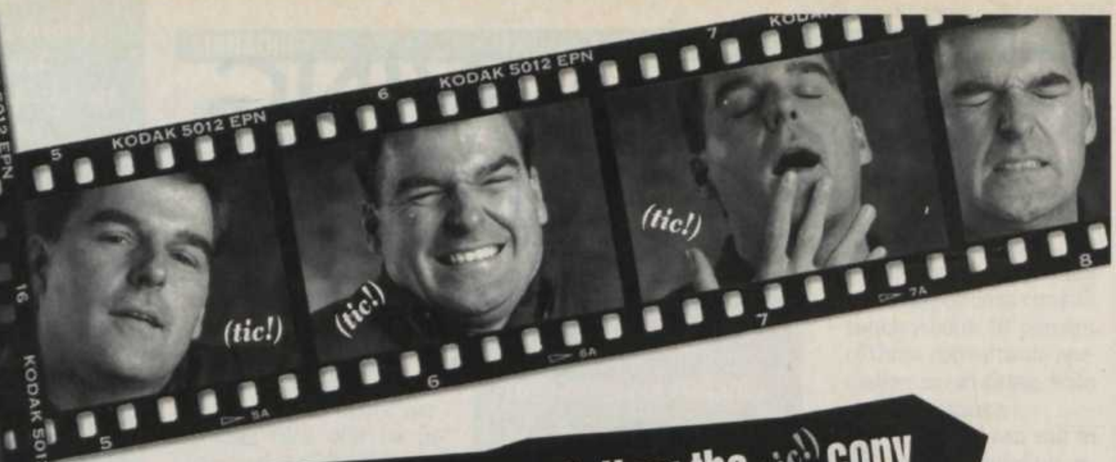

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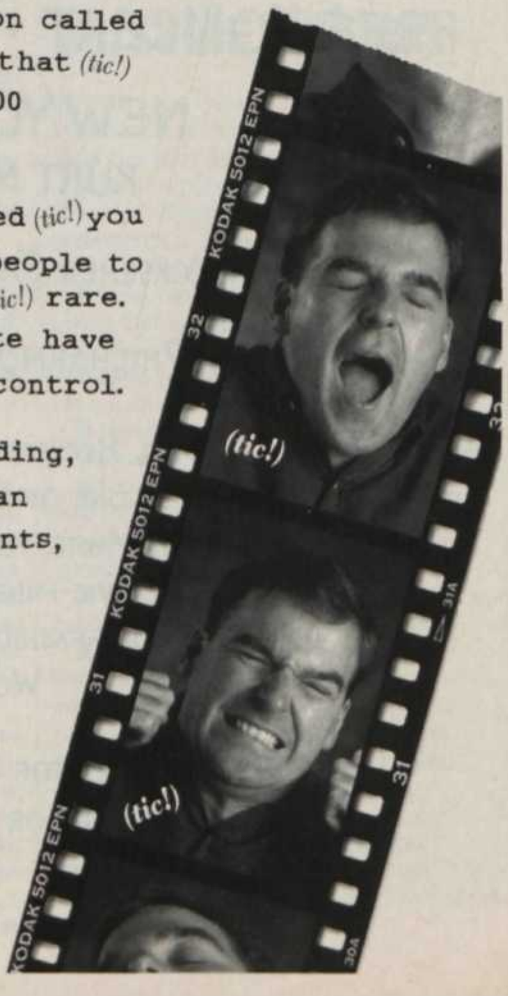
And, *(tic!)* thanks for understanding."



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Dialing Up Savings On The Internet

The rising costs of requests for long-distance information are making on-line directory-assistance services an appealing alternative.

By Frances Cerra Whittelsey

While the cost of calling long distance has been dropping steadily as the competition among carriers for customers has intensified, the cost of obtaining the phone number of a distant person or business has been rising.

Each long-distance request for a phone number costs 85 cents to $1.10, depending on the carrier. At those prices, just one request per business day can add up to about $20 a month.

But cost isn't the only problem. "It can be very hard to find anybody with phone directory assistance if you don't know where they are located," says Naveen Jain, founder and CEO of InfoSpace, an Internet directory-assistance service. "Even if you know a person's area code, you may not know the city. Or you may want to contact a business you've read about, but you have no idea where it is located, so you can't find it."

Enter the Internet directory-assistance services. Big Book *(www.bigbook.com)*, Big Yellow *(www.bigyellow.com)*, InfoSpace *(www.infospace.com)*, and Switchboard *(www.switchboard.com)*, among others, have become some of the hottest sites on the Internet. Switchboard, for example, ranked 23rd among the World Wide Web's most popular sites early this year, according to PCMeter, a service that measures usage on the Internet. The site was launched in February 1996.

These self-service on-line directories, which are offered free (the services draw revenues from advertising), enable users to find phone listings for a person or a business by entering only the name, if that's all that is known. All matches for the name, with addresses and phone numbers, are displayed. Even a partial address, such as a state, can be enough to narrow the search and ultimately produce a listing.

In addition, some Internet directories offer fax numbers, electronic-mail addresses, Web-site addresses, and other helpful information. All four of the services mentioned above offer maps, and three offer directions to destinations. With InfoSpace, you can also enter an address, choose a radius from the address, and find, within that distance, the names of businesses by type—all the hardware stores, for example, or florists, or Italian restaurants.

Questions Of Speed And Accuracy

Not all is perfect with the on-line directories, of course. Essential to using them is access to a computer, although some directories are accessible via mobile phones or digital pagers. (The new Internet telephones developed so far can pick up electronic-mail messages but cannot reach Web sites.)

The sometimes-slow response speed of the Internet can also be a problem. So some people might prefer one of the directory listings available on CD-ROM, such as PhoneDisc from PhoneDisc Inc. in Omaha, Neb., or Select Phone from ProCD in Danvers, Mass. They can be bought at retail outlets. Both are listed at $99 for a single CD or about $200 for the first CD plus quarterly updates for a year.

Furthermore, the listings in on-line directories are not always accurate. A company's or individual's listing may not be updated for months after a change, and the directories sometimes give nonworking numbers or numbers that were assigned to others.

Also, trying to find a business that does not advertise in the Yellow Pages, or the corporate headquarters of a large company with many local offices, can be frustrating.

Bells On Board

Even the regional Bell operating companies have come to recognize that at least a part of their future in directory assistance lies on-line. Big Yellow, for example, is the on-line directory service of NYNEX, which is expected to merge with Bell Atlantic.

"Big Yellow is primarily a shopping service where people are looking for information about businesses, like hours of operation or what credit cards they take," says Phil Santoro, director of public relations for Big Yellow. "We learned through a recent poll that no more than 10 percent of people use it as a substitute for directory assistance."

However, interest in using on-line directories as a substitute is sure to grow as long-distance directory-assistance rates continue to rise. According to R.L. Smith, a Federal Communications Commission specialist on public utilities, AT&T's rates stayed at 60 cents per request from October 1985 until September 1991. They jumped to 75

cents in December 1993, and by June 1996 they had risen to 95 cents.

The rates of other long-distance carriers have tracked those of AT&T. MCI now charges $1.10 per request; Sprint charges 95 cents; LCI, 85 cents; and Frontier, 95 cents, according to customer-service representatives at those companies.

Going To The Sources

The strengths of long-distance information have been convenience—being able to pick up the phone and have someone else look up a number—and accuracy, particularly for new or recently changed listings.

Users calling for a number outside their area code used to be connected to the regional Bell operating company in that area, which provided the service under contract to the long-distance carrier.

But AT&T is no longer getting information from the regional Bells, according to Ruthlyn Newell, an AT&T spokeswoman. The company is "negotiating with [the Bells] for competitive and fair prices for the data," she says, noting that in the meantime the company has contracted with other data services, which she declined to identify. Both MCI and Sprint, however, still use directory information provided by the Bell operating companies.

With sophisticated search capabilities and low cost, the on-line directory-assistance services have become serious competitors to traditional directory-assistance services.

The change in the information source has caught the attention of the Maine Public Utilities Commission. "One of the problems we have seen and are starting to investigate is that some of the long-distance providers don't have the correct information or don't have it at all," says Derek Davidson, assistant director of the commission's Consumer Assistance Division.

Newell acknowledges that AT&T would "like to improve our data" and that the company does "occasionally receive complaints," but she adds that the error rate is "well within industry norms."

Many of the on-line directories get their data from a single source, American Business Information, based in Omaha, Neb. Early this year ABI bought a major competitor, Database America. Listings come from published phone books, according to Neil Edwards, vice president of ABI's Internet Division.

To try to keep listings current, ABI gets change-of-address data from the U.S. Postal Service and verifies listings and other information by phone, Edwards says.

InfoSpace gets its listings from ProCD. InfoSpace's Jain says ProCD's information is just as accurate as ABI's, but he adds that all on-line directories are only about 70 to 80 percent accurate.

InfoSpace offers a directory of company Web sites, fax numbers, and toll-free telephone numbers, and it provides the names of government officials at all levels. You can find out the weather and even locate an apartment for rent.

Jain is "making a deal almost every day" with information providers, software and hardware companies, and telecommunications companies, "branching out like a huge octopus," says Victor Rubell, editor of the *Cowles/Simba Report on Directory Publishing*. Rubell's publication gave InfoSpace an award last year for "most innovative directory of any kind—on-line, on disc, or in print," he says.

A Faster Future

With their sophisticated search capabilities and low cost, the on-line directory-assistance services have already established themselves as serious competitors to traditional directory-assistance services offered by long-distance carriers.

When specialized Internet telephones are made capable of reaching Web sites, it will help the on-line directory-assistance services overcome their major drawback—slow and cumbersome access by computer. Such services may then largely replace traditional directory assistance for many business purposes. NB

Frances Cerra Whittelsey is a free-lance writer in Huntington Bay, N.Y.

Family Business

Facts that counter a mistaken notion about the quality of management.

OBSERVATIONS

Family-Owned, Professionally Managed

By Sharon Nelton


PHOTO: T. MICHAEL KEZA

Earlier this year, *Black Enterprise* magazine named BET Holdings Inc., a $133 million-a-year cable television network and publishing business in Washington, D.C., its Company of the Year. In a subsequent article in *The Washington Post*, BET's founder and chief executive, Robert L. Johnson, was quoted as saying: "The times are changing and the markets are changing so fast. But the [black-owned] businesses, by and large, are the same as they were 50 years ago: family-owned and not run by professional managers."

He said black-owned companies will have to change in order to grow, and he emphasized that in order to compete, they will have to form strategic alliances with one another and with white-owned companies.

I agree with the latter notion. But I have to challenge the former—the suggestion that being family-owned means that a company is not run professionally. That's not necessarily so.

A company can be family-owned *and* professionally managed. Many of the best companies in the country—whether minority- or white-owned—are owned or controlled by families. Included on *Black Enterprise's* 1997 list of the top 100 industrial and service companies, for example, are Johnson Publishing Co. Inc. in Chicago, a $326 million-a-year company that publishes *Ebony* and is in broadcasting and cosmetics as well; H.J. Russell & Co., a $164 million construction firm in Atlanta; and Earl G. Graves' companies, Pepsi Cola of Washington, D.C., and Earl G. Graves Ltd., the publisher of *Black Enterprise*, which had combined revenues of more than $85 million last year. These companies all have intense family involvement.

Another on the list is Innovative Logistics Techniques, Inc. (Innolog), a logistics engineering services company based in McLean, Va., that was founded by Verle B. Hammond, a retired Army colonel. When I interviewed Hammond earlier this year for the cover story on leadership in the May issue of *Nation's Business*, I learned that his wife and two daughters are senior executives in the company and that a son works there, too. It's definitely a family business, and the Hammonds want it to stay that way.

But its growth is a close match with Bob Johnson's company, BET Holdings. BET first appeared on the *Black Enterprise* list in 1992, when it was 12 years old and had just gone public. Its revenues the year before had been $51 million, and the company had 249 employees. Founded eight years ago, Innolog already has 400 employees. Hammond expects revenues of $43 million this year and twice that much by 2000.

Clearly, a family business—whether white-owned or black-owned—can be professional and can grow. Verle Hammond's daughters have college degrees and bring years of experience to the company. Innolog also relies on many excellent nonfamily managers, does regular strategic planning, and draws on consultants to help it move forward.

Other black-owned family businesses can follow the same path to growth, remaining family businesses but making sure that management, whether it's family or not, is top-notch. They can adopt sound business practices and policies. And they can create a stellar board of directors to help them think strategically.

To learn to grapple with the issues inherent in a family firm, members can participate in family-business programs at any of dozens of colleges and universities across the country or attend other educational programs. (Several are listed in the calendar at right.)

Being family-owned and professional is just a matter of being committed to both the family and the business and taking the steps necessary to enhance the success of both. ■

MARK YOUR CALENDAR

Aug. 12, St. Louis

"Compensation in the Family Business: How To Make It Work for All Employees" is a daylong seminar featuring family-business consultant Sam Lane. To be repeated Aug. 13 in Decatur, Ill. Call Rich Lumma at the Family Business Forum at Southern Illinois University at Edwardsville; 1-800-692-4333.

Sept. 9, Springfield, Mass.

"Creating Change in a Family Business (and Other Myths)" is the topic of a program of the University of Massachusetts Family Business Center. Also to be addressed is the topic "Conscious Aging and the Mid-Life Crisis: Life Cycles of Family Business." Call Ira Bryck; (413) 545-1537.

Sept. 18, Farmington, Conn.

A "Family Business Team Building and Negotiation Skills Workshop" is a daylong offering of the University of Connecticut Family Business Program. Call Diane Mitchell; (860) 486-4483.

Sept. 26-28, Pocantico Hills, N.Y.

A "Next Generation Retreat" is aimed at helping new trustees to understand their role in a family foundation and to build skills as board members. Call Aisha White of the Council on Foundations; (202) 467-0433.

Sept. 30, Philadelphia

"Strategy, Values and High Performance: What We're Learning at MOPAC" features Lee Delp, president of Moyer Packing in Souderton, Pa. Call Henry Landes at the Delaware Valley Family Business Center; 1-800-296-3832.

Oct. 2-4, The Hague, Netherlands

"Shaping the Future of Your Family Business" is the theme of the annual conference of the Family Business Network, an international organization of families in business. Request information by calling the Dutch Foundation for Family Business at (31) (343) 420 084, or write to the foundation at IJskelderlaan 1, 3941 HS Doorn, The Netherlands.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

Case Study: A Couple In Jeopardy

As their banker puts on the "squeeze," Randi and Tom Pines, both in their mid-50s, are finding themselves in conflict with each other over business decisions.

Five years ago, just as Tom started Pines Asbestos Removal Services as a companion to an older business, Pines Insulation Co., Randi was looking to return to the work force, since their children were grown.

With Tom's encouragement, she assumed ownership and management of the new business, and the enterprise enjoyed several years of growth and financial success.

But local economic conditions have turned soft, labor is increasingly hard to find and manage, the industry's reputation is suffering, earnings are dropping dramatically, and Randi no longer experiences the joy in her work she once did. The couple's bank, which had granted Randi's firm its own line of credit, now wants to combine the line with that of the insulation business, which has its own cash needs.

Tom and Randi have different management styles and distinct ideas about how to handle Randi's troubled company. Tom gets angry when Randi rejects his suggestions by contending they don't apply to her business. Randi wants to sell the asbestos firm. Says Tom: "I still see it as a conduit for sales for the insulation business, but I'm also frustrated by the cash crunch caused by the bank's change in policy."

The two are approaching the decision-making process with some concern. They wonder, "Just whose decision is this?"

ILLUSTRATION: TROY THOMAS

Response 1

Clarify The Roles

Randi and Tom face the classic dilemma of "co-preneurial" couples: When business is good, the family usually thrives, but when business wanes, family life suffers.

Power struggles are normal in a healthy marriage. Achieving business prominence and financial success often increases a woman's sense of personal power, especially in relation to her husband. Business couples get in particular trouble when they don't have a special time and place—other than at work—to air these personal struggles regularly.

Ralph M. Daniel, a psychologist and principal with the California Family Business Institute, a consulting firm in Westlake Village, Calif.

Randi thought she was building her own business, only to discover that Tom views it as a subsidiary of his insulation business. The couple needs to clarify who owns the asbestos firm and whether its future should be determined by an individual or a mutual decision.

The twosome also must accept a key fact of management: A reluctant manager makes a poor leader. Randi no longer wishes to run the asbestos business. To continue, the most qualified successor must be selected—be it Tom or an outsider.

How could Randi and Tom have avoided some of their difficulties? A written agreement—based on open discussions before forming the asbestos company—would have set forth clearly who owns what, which decisions require mutual consent, how to break stalemates, and when and where to conduct regular business meetings.

When Randi and Tom are ready to clarify and distinguish among their multiple roles as family members, managers, and owners of a family enterprise, they will be prepared to evaluate and act on their strategic options: continuing, merging, or selling the asbestos operation.

Response 2

Sort Out Issues

Randi and Tom need to clarify governance and decision-making processes. First, they should ask themselves what they want as a family. Within this is Randi's loss of joy in her work. Is it related to changing business realities, the changing economics of the business, or the impact of business difficulty on the marriage?

When the two know what they want, they can sort out the governance issues, among them the informal rather than formal relationship between the two companies. Randi should retain final say on the direction and disposition of the asbestos company. She can more easily accept Tom's advice from that position, and Tom should respect her authority.

If Tom believes that Randi's business is essential to gaining customers for the insulation firm, he should propose some form of marketing agreement, such as paying finder's fees for new business referrals. Or maybe there is a logic for merging the businesses.

Either way, real business agreements between principals can actually reduce pressure on the marriage, which may be carrying too much of the burden. Tom and Randi both wear a business hat and a spousal hat in their dealings with each other. Knowing when to wear each will clear the way for intelligent decision making.

Finally, their banker's strategy of playing husband against wife could backfire by slowing down decision making or even fanning the flames of separation and divorce—an outcome hardly in the best interest of any note holder. By lumping the businesses together, the banker puts the squeeze on the marriage rather than facilitating intelligent discussion between business owners about what needs to happen with each business and the synergies between the two.

PHOTO: CEAL DIMARCO—BLACK STAR

G. Scott Budge, executive director of the Family Enterprise Center of SEI Investments in Oaks, Pa.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the view of the institute.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

MANAGING

Seeking Help On Human Resources

I manage a small but rapidly growing company that will be employing about 75 people in the next six months. Where can I get information on setting up a human-resources and benefits department?
N.B., Wellesley, Mass.

ILLUSTRATIONS: MARTHA VAUGHAN

The Society for Human Resource Management in Alexandria, Va. (703-548-3440, or *www.shrm.org* on the Internet) has more than 80,000 members nationwide. Individual members receive the organization's magazine, newsletter, and other professional publications as well as access to its information center. Membership costs $160 a year.

The association's Portfolio Program is designed to help businesses just starting human-resources and employee-benefit functions. In addition, it runs training courses and the Human Resources Certification Institute for professionals in the specialty.

The American Management Association in New York City (1-800-262-9699 or *www.amanet.org*) offers many publications, seminars, self-study programs, and videos on management topics, including human-resources issues.

Membership costs $165 a year for individuals and $535 a year for companies with fewer than 300 employees. The association can provide consultants to help companies set up human-resources departments, but this service can be expensive.

Andrew Ludlow, a spokesman for the Society for Human Resource Management, says that even small companies need professional human-resources skills to avoid pitfalls from government regulations and employee and benefit problems. Specialized knowledge, he adds, is needed to deal with federal laws such as the Americans with Disabilities Act, the Family and Medical Leave Act, discrimination rules, and workplace-safety regulations.

The processes for hiring—and especially firing—also require care because of legal rights to which workers may be entitled. "You need someone who's aware" of such rules, says Ludlow. "Otherwise you might not even be aware you're breaking the law." He adds that when a company creates a human-resources office, it's better to hire a "generalist who has experience in the field."

Ludlow says companies with 50 to 100 employees are likely to need a full-time human-resources specialist. Hiring an outside firm to provide human-resources and insurance or retirement-benefit functions is usually too expensive for small companies, he adds.

As companies grow, they need help in managing workplace-diversity issues and the office-policy and personnel conflicts that inevitably crop up. A human-resources professional, Ludlow says, "is there to help the employees as well as to police the policies."

For more on this topic, see "A Helping Hand On Personnel," Page 38. ■

GETTING STARTED

Chocolate Tips

I am interested in opening a gourmet chocolate shop. Is there an industry group I can contact for advice on this kind of business?
N.S., Pasadena, Calif.

The National Association for the Specialty Food Trade in New York City represents about 1,850 companies that manufacture, import, distribute, or retail gourmet and fancy-food items. Many members are chocolate stores. For information, call (212) 482-6440. Membership is $200 to $600 a year, depending on sales volume.

Retail Confectioners International, based in Glenview, Ill., represents companies that manufacture and sell their own high-quality chocolate products. The group can be reached at 1-800-545-5381 or *www.retconint.org* on the Internet.

Big producers are represented by the Chocolate Manufacturers Association in McLean, Va.; (703) 790-5011.

Ideas In Infancy

I'm interested in manufacturing products for children and need industry safety standards for crib bumpers, crib sheets, and crib quilts or blankets. Where can I go for information?
M.C., Evanston, Ill.

One source is the Juvenile Products Manufacturers Association (JPMA), which operates a voluntary certification program for baby furniture, carriages, and related baby products manufactured by its 250 member companies.

Another source is the Childrenswear Manufacturers Association, whose 150 member companies make clothing products. These associations are managed jointly in Morristown, N.J., and can be reached at (609) 231-8500. Membership dues vary by company size.

Sales of juvenile products in the United States totaled more than $4 billion in 1995, the latest year for which figures are available, according to the JPMA. ■

MARKETING

The Music Is In The Mail

My wife and I operate a mail-order record and tape business from our home. We market traditional country music, Western swing, yodeling, steel guitar, fiddle music, etc. We advertise in publications covering about 15 states and would like to market nationwide. Where can we find national mail-order lists of people who purchase this kind of music?
B.J., Jenks, Okla.

Try the National Mail Order Association in Minneapolis (612-788-1673, or *www.nmoa.org* on the Internet), which specializes in helping small and medium-sized firms with mail-order and direct-marketing needs. Membership is $99 a year.

The group can help you find specialized mailing-list brokers from whom you can "rent"—typically for one-time use—lists of potential customers, although you can also find list brokers in the Yellow Pages under Mailing Lists or Advertising—Direct Mail.

John Schulte, a spokesman for the mail-order association, notes that "mailing lists are a big business" and that the volume of mail-order sales is growing nationwide. He says there are two major kinds of lists. One is the "compiled list," which consists of the names and addresses of people by occupation or category. The more valuable "response list" contains the names of consumers who have responded to ads with a mail- or phone-order purchase of a particular kind of product or service. The lists are priced accordingly.

Schulte notes that some national mail-order music clubs segment their customer lists by music preference. While these clubs occasionally rent their mailing lists, he adds, they generally refuse to share that kind of information with competitors; these are known as "closed lists."

Another possible mail-order source is the Direct Marketing Association in New York City (212-768-7277), which is geared more to big direct-mail companies.

Numerous trade groups focus on the business of a particular style of music. One is the Country Music Association in Nashville, Tenn., at (615) 244-2840. NB

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number.

Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

June Poll Results

Readers' Views

Cut Taxes Now!

A majority of *Nation's Business* poll respondents want major tax reforms from Washington, with changes in capital-gains and estate taxes at the top of their list, according to the results of a recent reader survey.

Respondents to the Where I Stand poll in the June issue were divided over various types of tax changes, but they voiced overwhelming support for one proposal: Nearly two-thirds called for a reduction in the tax rates for capital gains.

Strong support was also evident for exempting family-owned businesses from estate taxes and increasing the health-insurance deduction for the self-employed to 100 percent.

Here are the complete results of the poll:

Questions And Answers

Which one of these tax changes is most important to you?

Estate-tax reform	34%
Capital-gains-tax reform	36
Alternative-minimum-tax (AMT) reform	3
Expanded eligibility for tax-deductible individual retirement accounts (IRAs)	5
Tax reforms for the self-employed and small businesses	18
Child tax credit for middle-income families	4

Aside from repeal, which type of estate-tax reform is most important to you?

Cutting the rates	32%
Increasing the unified credit and indexing it for inflation	26
Exempting family-owned businesses from the tax	42

Aside from repeal, which aspect of capital-gains-tax reform is most important to you?

Cutting the rates	64%
Indexing capital assets for inflation	16
Providing exemption for specific assets, such as a principal residence	17
Allowing for capital-loss treatment on sale of a principal residence	3

Aside from repeal, which aspect of AMT reform is most important to you?

Lowering the rates	19%
Allowing taxpayers who are subject to the AMT to use the full range of depreciation methods available to other taxpayers	51
Allowing unused minimum-tax credits to offset current-year AMT liabilities	30

Which aspect of expanded IRAs is most important to you?

Increasing the income limits for deductible IRA contributions	43%
Creating new nondeductible IRAs in which contributions and earnings would not be taxed upon withdrawal	37
Allowing for penalty-free withdrawals for qualified purposes, such as first-home purchase and medical expenses	20

Which of these tax changes for the self-employed and small businesses is most important to you?

Expanding the home-office deduction	8%
Increasing the health-insurance deduction to 100 percent	44
Clarifying independent-contractor rules	11
Reducing the maximum tax rate on reinvested business earnings	21
Increasing the equipment-expensing allowance	16

Where I Stand

On Clinton And Congress

Voters last November decided to stick with a Democratic president and a Republican-controlled Congress. This year, President Clinton and the GOP congressional leaders struck a multiple-year agreement to balance the federal budget. These questions seek your views on the roles of the president and Congress in moving the nation toward a balanced budget.

Results of this poll will appear in the October issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 Who do you believe is more responsible for the balanced-budget agreement?

1. Clinton
2. Congressional leaders

2 Whose spending priorities more closely reflect your own?

1. Clinton's
2. Congressional leaders'

3 Who has done more on the issues important to you and your business?

1. Clinton
2. Congressional leaders

4 Who is more committed to fostering economic growth?

1. Clinton
2. Congressional leaders

5 Who is doing more to reduce the regulatory burden on businesses?

1. Clinton
2. Congressional leaders

6 Whose policies would more likely lead to lower taxes and a fairer tax system?

1. Clinton's
2. Congressional leaders'

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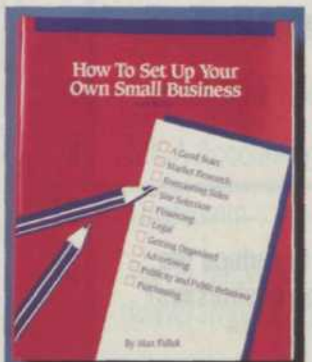

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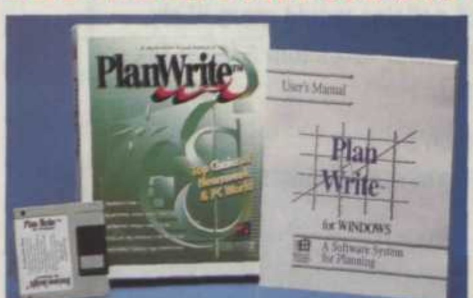

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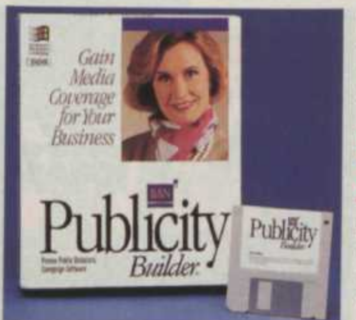

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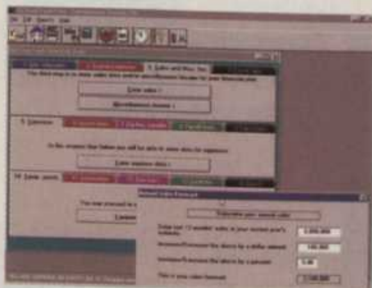

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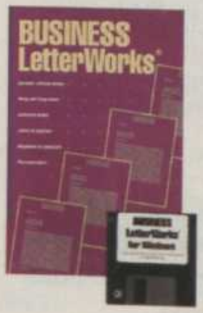

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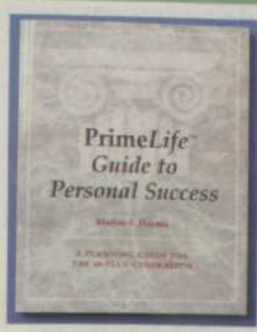

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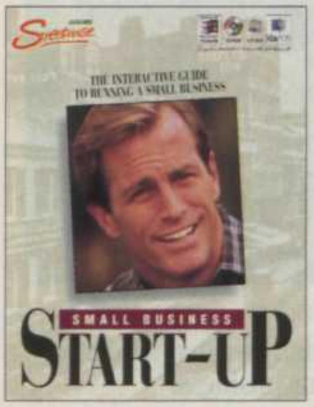

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Making It

Growing businesses share their experiences in creating and marketing new products and services.

The Language Of Success

By Michael Barrier

It is an immigrant success story of a classic kind. They started by selling flowers on a street corner; now they own an 800-employee business. So it was with Helen and Marty Shih (pronounced "she"), a sister and brother who came to the United States from Taiwan in the late '70s and now own the El Monte, Calif., company known (from its toll-free number) as 1-800-777-CLUB, Inc. That number logs about 1,200 phone calls a day from Asian immigrants seeking information in six languages—Japanese, Korean, Mandarin and Cantonese Chinese, Tagalog, and English.

The callers may need advice on dealing with immigration officials, perhaps, or help in understanding a bill. The Shihs use those calls to add to a database of names, phone numbers, and demographic information that is used in turn for highly targeted telemarketing.

The Shihs, who are now in their early 40s, came to the United States on student visas, although they had permanent residence in mind. Their mother had fallen in love with America when, as a teenager, she attended an American school in Beijing for a few months, and she decided then, Helen says, "that if she ever had kids, she wanted them to live here."

They started with only $500 as seed money for their first business, selling flowers on the street. An American businessman took an interest in the Shihs, and in 1979 he gave them rent-free space in the lobby of a building he owned. "He saw we worked very hard," Helen says, "so he really wanted us to have shelter." A foothold of that kind was all the Shihs needed: By the late '80s, they owned a chain of 16 She's Flower Shops, with annual sales of $4.5 million.

Rather than seek high-end business for flower arrangements, they opted for something more like mass production. "We regularly produced only five or six different arrangements," Helen says. That way they could control their inventory and use a few unskilled workers, working in a sort of assembly line, to produce several hundred arrangements every day.

"Very early," Helen says, "we understood that a database was very important to us"—even though they didn't have a computer then. They knew the value of capturing dates such as a customer's wedding anniversary, so they could remind him that it was time to send flowers again. Ultimately, they spent $200,000 on a computer system for their stores.

As the Shihs used data gathered from their largely Asian clientele, they became convinced that they could use such data to sell more than flowers. In 1988, Marty and two colleagues began work in a basement, setting up a system that could be the basis for an extensive telemarketing operation.

They went to mainstream companies offering to sell in the Asian community for them, with an alluring guarantee: If there were no sales, they wouldn't have to pay. Even so, finding clients was hard, Marty says. "They thought, 'Marty is a flower boy.'"

The Shihs' database was still limited, derived largely from the flower shops and some Chinese versions of the Yellow Pages—perhaps 40,000 names in all. They built up the list in whatever way they could; Marty would even copy names out of phone books on trips out of town.

Their great advantage was that their telemarketers were talking in their native language to people who were still

PHOTO: ©BART BARTHOLOMEW

A telephone help line *for Asian immigrants feeds the database of a telemarketing business owned by Marty and Helen Shih.*

far from assimilated. When they began calling in Vietnamese, Marty says, "people loved to talk. We were almost making one sale for every two calls." Last year their telemarketers sold more than $146 million worth of goods and services for companies including Sprint Corp. and DHL Worldwide Express.

The Shihs' database now has around 1.5 million individual names—covering a high percentage of Asian-American households—and 300,000 businesses.

The Shihs' target market is immigrants who have been in the United States for less than 10 years, but they clearly expect that the company's business connections with Asia will grow in a way that will reduce the dependence on new immigrants. They plan to be vehicles for what they call "American mainstream information" in Asia while they simultaneously collect data on Asian customers for American companies.

In his 18 years in the United States, Marty Shih says, his businesses have frequently grown by 200 percent or more in a year—not because he is particularly smart or well-educated, he says, but because he has "passion and a dream." Many people have a dream, he suggests, but it's not big enough, and they don't have a clear idea of how they might achieve it.

"We always keep thinking big," he says. He and Helen make mistakes—the second flower shop they opened was not successful, and when they had three shops, "we lost control, totally"—but they never let up. "Most people, when they trip, they stop," Marty says. "I wasn't that way." ■

Designing Big Dreams

By Sharon Nelton

If only his father could see him now. When Stephen Slater was a boy all revved up about baseball, he'd go home and start talking up the exploits of Mickey Mantle and Sandy Koufax.

But his dad, a Silver Spring, Md., auto mechanic, would preach to him about Jackie Robinson, Satchel Paige, and Josh Gibson. "These are your heroes, son," he would say.

This year, George Paul Slater, who died in 1991, would be especially proud of his youngest son. Stephen Slater is the artist who was chosen by General Mills to design a series of three Wheaties cereal boxes honoring Jackie Robinson on the 50th anniversary of his first game with the Brooklyn Dodgers (April 15, 1947), which broke the color barrier in Major League Baseball.

Last year, for Black History Month, General Mills brought out a Wheaties box, also designed by Slater, commemorating the Negro Leagues. Designing a Wheaties box, says Slater, "is like doing the cover of *Time* magazine, as far as I'm concerned."

Stephen (pronounced "Steffen") Slater, 40, heads his own design firm, Slater Publishing, in Eden Prairie, Minn., near Minneapolis. While earning an associate degree in art, he worked in Washington, D.C., at a typesetting firm. There he met his future wife, Kerri Risberg, a sales representative. Eventually, they headed for Minneapolis because Risberg is from Minnesota. Six years ago, after working as an art director for other companies, Slater went out on his own.

In 1993, he lost his biggest account. "It was about a $60,000 hit," he says. "That really hurt, and we almost went under. My wife was pushing me to get a job."

But that loss taught him that no client should account for more than 50 percent of his business. He started over, redirecting the company from an emphasis on designing books and manuals to focusing more on marketing design, such as packaging, corporate identification, and logos.

And that year his luck began to improve. He heard about and joined the Minnesota Minority Supplier Development Council, an organization that promotes corporate purchasing from minority businesses. There he met a General Mills executive who got him in the company door, starting out with small jobs, such as posters for Black History Month. Now he is offered work throughout the company, designing not only Wheaties boxes but also packages for Trix, Frosted Cheerios, and Total, as well as brochures and logos.

PHOTO: ©STEVE WOIT

A proven champion *in design work for companies, Stephen Slater created Wheaties boxes honoring Jackie Robinson.*

Slater credits people at General Mills with reaching out to him once they learned he could perform. "I have to pinch myself because it's such an opportunity," he says.

He now has about 20 clients, including Pillsbury and Orchem, an industrial-chemical company in Fairfield, Ohio. Two years ago, Robert F. Olson, a long-time friend and the founder of Intranet Solutions, Inc., a computer reseller, invited Slater to move into Intranet's headquarters and grow as Olson's company grew. Intranet has since become Slater's largest account.

Slater Publishing drew in $160,000 in revenues last year, and Slater expects 50 percent growth this year. Including Slater, there are two full-time and three part-time staffers.

Despite the preponderance of black themes in his projects, Slater doesn't want to be limited to ethnic work. He doesn't even want to be limited to design. He plays guitar, bass, and piano. He sings and writes music. And he expects to come out in August with a compact disc titled "State of Mind."

He wants to stay small but think big. Although he doesn't see his business growing beyond six people, his aim is to turn it into a holding company for multimedia, design, and music enterprises. "This is a great time for technology and art and music," Slater says, adding: "The opportunities now! It's just awesome." ■

MAKING IT

Horns Of Plenty

By Carla Goodman

Dave Monette believes that doing your job doesn't have to be hard work. Especially for musicians. That's why the former dance-band trumpet player set out years ago to design a trumpet that would be easier to play and would produce a deeper, clearer, more brilliant sound.

As a result, Monette, 41, has attracted a world-class clientele, including Wynton Marsalis, Herb Alpert, and Art Farmer, who pay $6,000 to $20,000 for one of Monette's state-of-the-art, custom-made horns.

The David G. Monette Corp.'s eight employees, all musicians, produce mostly trumpets but also some other brass instruments at the firm's 5,000-square-foot facility in Portland, Ore.

Transforming a sheet of brass into a gold-plated horn takes 80 to 100 hours of labor at Monette's company. "The industry standard for horn production is five to seven hours," he says. Conventional horns also sell for much less, about $1,000 each.

Although Monette's precision craftsmanship means limited production—no more than six horns a month—his company took in $750,000 in gross revenues in 1996.

The secret of Monette's work is the mouthpiece. Most conventional trumpet mouthpieces are so out of tune, he says, that players must "muscle" the instrument with their lips and arms, use alternative fingering, or pivot their heads to compensate for the inconsistent pitch center. Monette says his mouthpieces eliminate this problem with an acoustical innovation called a constant pitch center.

Regardless of how loud, soft, low, or high one plays, the instrument feels and sounds the same, Monette says. This consistency helps produce a better sound and a more relaxed musician.

Charles Schlueter, principal trumpet with the Boston Symphony Orchestra, has been using Monette mouthpieces and horns since the mid-1980s. "Dave has solved the acoustical aberrations that exist on all [other] mouthpieces," says Schlueter. "Because his mouthpiece has better intonation throughout its entire range, it allows me to have a wider range of dynamics and color of sound."

Each Monette horn is built to a client's specifications, which Monette gleans through interviews and an extensive questionnaire about playing habits and style, instruments previously played, and other preferences.

Monette doesn't use blueprints or sophisticated computer programs to design his horns. A longtime student and teacher of yoga, he meditates for his inspiration.

Monette's journey into business was circuitous. He joined a traveling dance band at 18 but grew tired of performing six to eight hours a day. He wanted to create a trumpet that would be easier to play, so he enrolled for a year at Allied Music, an internationally known instrument-repair school in Elkhorn, Wis.

In 1978, at age 23, he moved to Salem, Ore., and opened a shop for repairing musical instruments and altering conventional trumpets in various ways, such as redesigning their mouthpieces. Later, he moved to Bloomington, Ind., to work with his mentor, Charles Gorham, founder of the International Trumpet Guild, a worldwide organization of trumpet players. There, in 1983, Monette introduced his first trumpet.

One day, he recalls, "I'm sitting in my tiny little home in Bloomington, listening to messages on my home phone machine from three of the most famous trumpet players in the country. I wrote in my journal that night, 'Charlie Schlueter, Doc Severinsen [former band leader on "The Tonight Show"], and Tom Stevens [principal trumpet for the Los Angeles Philharmonic] called for various things. Gee, I guess I'm in the trumpet business.'"

Monette set up shop in Chicago, where he introduced his signature mouthpiece in 1986. He moved his company to Portland five years ago to enjoy a more relaxed lifestyle. He routinely joins his employees for their midmorning work break, where he serves up slices of his homemade chocolate satin tofu pie.

Monette isn't particularly troubled by companies that mass-produce brass instruments and imitations of his mouthpieces. They're not building state-of-the-art instruments, he says. "We get a constant stream of letters from clients about how our product has transformed them musically and personally. It's part of the payoff." NB

PHOTO: T. MICHAEL KEZA

A custom trumpet *plated with 24-karat gold and encrusted with diamonds was crafted by master trumpet maker Dave Monette, inset, as a gift for jazz musician Art Farmer.*

Carla Goodman is a free-lance writer in Sacramento, Calif.

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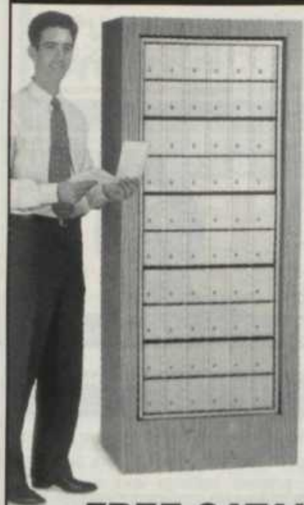

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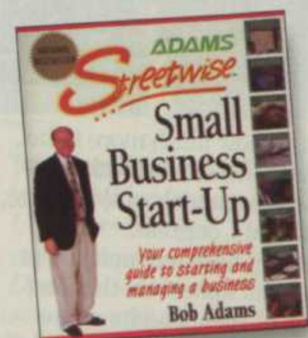

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Editorial

Changing Of The Business Guard

The national political and policy environment in which business operates has rarely undergone as much beneficial change as it has over the past two decades.

One of the most influential forces in bringing about that change has been the U.S. Chamber of Commerce under Richard L. Lesher, its president for the past 22 years. He will leave that position on Sept. 1, but the impact of his achievements on the enterprise system will endure far into the future.

PHOTO: ©JEAN CLAUDE FRANCOLON

Consider the contrast in the national scene between Lesher's arrival as head of the largest broad-based business federation and now as he prepares to leave.

The 1970s were a grim time for the enterprise system. Debate in Washington centered on how much more to tax, spend, and regulate. An administration elected with business support had collapsed amid the scandals of Watergate, which strengthened liberal control of Congress.

The economy was drifting toward high unemployment and even higher inflation. The social upheavals that had begun in the prior decade, many of them results of the Vietnam War, continued into the '70s. The protests spilled over into virulent attacks, some of them violent, on business. The private sector was assailed on campuses, in the media, and in political forums at all levels of government as an enemy that needed to be subdued. Liberal lawmakers responsive to such demands dominated the federal government and many state governments.

Lesher looked down the road and declared that the nation was on the verge of a great conservative revival. "You could see the first wave of public dissatisfaction with the liberal mentality," he recalls. "People were fed up."

As events soon proved, he was on target. The Reagan Revolution, the election of a pro-business Congress, and a vast increase in the number of pro-business governors and state legislatures were on the horizon.

Under Lesher's leadership, the U.S. Chamber mobilized grass-roots America behind the economic-growth policies that would benefit the entire nation and helped elect candidates who supported those policies.

In pursuing the basic strategy that has helped change the direction of government, the Chamber drew guidance from one of the most famous business documents in the nation's history—The Powell Memorandum.

Named for its author, Lewis F. Powell Jr., a prominent Richmond, Va., attorney when he wrote it and later an associate justice of the U.S. Supreme Court, the memorandum identified and suggested solutions for problems besetting business in the early '70s.

PHOTO: ©AP/WIDE WORLD PHOTOS

PHOTO: ©BRAD MARKEL—GAMMA LIAISON

The historic memorandum *on business problems in the 1970s by then-attorney Lewis Powell, later an associate justice of the U.S. Supreme Court, helped guide the U.S. Chamber as it led the efforts to redirect government after years of social upheavals, many of them stemming from the Vietnam War.*

The Chamber developed and successfully implemented a strategy based on the memorandum. As a result, the Chamber has helped create a political climate in which the debate in Congress and between Congress and the White House is no longer on how much more to tax, spend, and regulate but on how much less to tax, spend, and regulate.

Indeed, the legislative and executive branches have agreed on a goal that the Chamber was advocating long before President Clinton and most members of Congress

PHOTO: ©GEORGE DISARIO—THE STOCK MARKET

The turn of the century *presents the U.S. Chamber with a business environment influenced by rapid globalization of the marketplace and unprecedented changes in technology, telecommunications, and the ways in which we work.*

PHOTO: T. MICHAEL KEZA

Transition: *Thomas J. Donohue, left, becomes president and CEO of the U.S. Chamber Sept. 1. In succeeding Richard L. Lesher, right, Donohue will be only the third person in nearly 50 years to head the federation.*

arrived in Washington—a balanced federal budget, which is the key to the smaller, less powerful central government envisioned by business.

To succeed Lesher, the Chamber's board of directors has chosen Thomas J. Donohue, who has 20 years' experience as a national and international advocate for business, seven of them as a senior executive at the U.S. Chamber from 1977 to 1984.

Donohue then became president and chief executive officer of the American Trucking Associations. As a result of his leadership, the ATA's revenue base tripled and its membership doubled. The trucking industry won major legislative victories, including a more favorable tax and regulatory climate and increased funding for highways. Under Donohue, the ATA took a leading role in promoting policies that expanded international markets for American companies. He was also the motivating force behind initiatives that resulted in major improvements in truck safety.

Donohue will begin his duties as president and CEO of the U.S. Chamber with "a vigorous agenda that unites all businesses, large and small, and rallies the support of the American people," he said in responding to his selection by the Chamber board at its June 11 meeting.

He describes his mission in his new post: "To give business a strong, aggressive voice and move the pro-enterprise agenda forward in Washington and the states."

His first step, he says, will be an expansion of the Chamber's financial and membership base. With a strong Chamber, he says, "we'll vigorously fight unnecessary taxes, regulations, and government mandates that threaten to choke off enterprise."

That fight, Donohue adds, will also be aimed at "those who ... would harm the productivity and job-creating capacity of companies large and small."

Among the anti-business forces he plans to take on are "those labor-union leaders who savage good companies," trial lawyers who have "manipulated and abused" the judicial system at the expense of every business and consumer, and "extreme environmentalists who have thrown common sense and sound science out the window in their effort to impose no-growth policies on our country."

And, Donohue adds, "we intend to provide unprecedented business leadership in the fight against crime and drugs."

He will have the added challenge of carrying out his agenda in a business environment undergoing massive and accelerating changes. Technological advances outpace one another in altering the way America works, communicates, and relates. The marketplace is becoming globalized at unprecedented speed, and the nation must contend with the fact that trade extends beyond commercial transactions to issues such as education, productivity, and regulation.

Donohue has long been a formidable advocate for business and the principles and policies that are essential to national economic health. The entire business community can draw assurance from having such leadership as it prepares to enter a new century. NB

Free-Spirited Enterprise

By Michael Barrier

A Novel Kind Of Business

We visited recently with a screenwriter named Paul Chitlik over breakfast at Priscilla's, a Toluca Lake, Calif., coffeehouse. Priscilla's, near the Disney, Warner Bros., and NBC studios in Burbank, is a show-biz hangout; a steady stream of customers includes executives, writers, directors, and the occasional supporting player from a show like "ER."

Priscilla's, unlike most such places, is also an important setting in a novel—one that Chitlik wrote and gave away last summer at about 100 locations (including Priscilla's) in a few select corners of Los Angeles. He printed 10,000 copies, distributing them in what he calls "the entertainment corridor" that embraces not just Burbank and Hollywood but also Studio City, Beverly Hills, West Hollywood, and a few other parts of town.

He even managed to make a few hundred dollars doing it—to his surprise—on a total investment of $3,200. When we spoke with him, he was hoping to do better with a new novel he planned to publish in late spring.

Chitlik publishes his novels in what is, in effect, a "shopper"—a giveaway paper that subsists on its ads. Chitlik's "shopper" is called *The Dime Novel*, a title chosen not to refer to its price but to the paperbound adventure stories that sold for 10 cents a century ago. "Berns With An 'e,'" the story in the first issue of *The Dime Novel*, fills most of the magazine's 60 pulp pages, along with ads for local establishments like Priscilla's and The Pedal Shop.

Chitlik's novel, which he wrote under a pen name, has a local flavor, too; the protagonist is a world-weary screenwriter who lives in Burbank (as Chitlik does) and tracks a Nazi murderer through an L.A. landscape as detailed and accurate as the St. Petersburg of *Crime and Punishment*.

When he went into business, Chitlik started with a schedule that called for spending several hours a day selling ads while he was doing other work. His knuckles "were bare, they were raw" from knocking on doors, he says, only half kidding. Since he had no magazine to show to potential advertisers, he showed them a mockup that his sister-in-law prepared on her home computer.

When he was selling to Priscilla's—which he had identified in the novel by another name—he offered to change the name back to Priscilla's if the shop took out an ad. He wasn't able to use real names in his new novel since it takes place in the future, he says, "but the novel after that, I will probably presell the ads, so I know what names to put in the novel."

He gave Art's Delicatessen in Studio City a front-cover position without charging a front-cover premium—in exchange for which the restaurant promised to put a copy in every take-out order. "The take-out orders go to the studios," he explains. "I thought I'd get noticed that way."

Getting noticed is what *The Dime Novel* is ultimately all about; and not just getting noticed by television and movie executives who might give Chitlik writing assignments, either. "As a screenwriter," he says, "I make a living—not a great living, but a good living. But I've always wanted to gradually move into writing novels, instead of having to write what other people want me to write."

Screenwriting, he says, gets "harder the older you get"—he is 49—"especially in television, which just chews you up and throws you out."

He got the idea for *The Dime Novel* when he was bicycling with a friend who owns The Pedal Shop; when Chitlik remarked that he couldn't make any headway in getting an agent to handle his fiction, his friend suggested that he publish a novel himself and distribute it for free.

Even though it's an easy-reading murder mystery, "Berns" is not a frivolous story; as Chitlik says, "Coming to grips with death is what this book is all about." It hasn't stirred any interest among publishing houses in the East, even so. His next novel, which he describes as "serious science fiction," may have better luck.

And if not ... well, on the basis of its maiden performance, the Dime Novel Co. may grow into a tidy little business, especially if Chitlik can round up some other L.A. novelists to help him fill *The Dime Novel*'s pages on a regular schedule.

Even if you don't live anywhere near the "entertainment corridor," you can still read *The Dime Novel*. Copies of the first two issues are available by mail—not for a dime, though, but for $5.95 each. Send your check to The Dime Novel Co., 10153½ Riverside Drive, #584, Toluca Lake, Calif. 91602.

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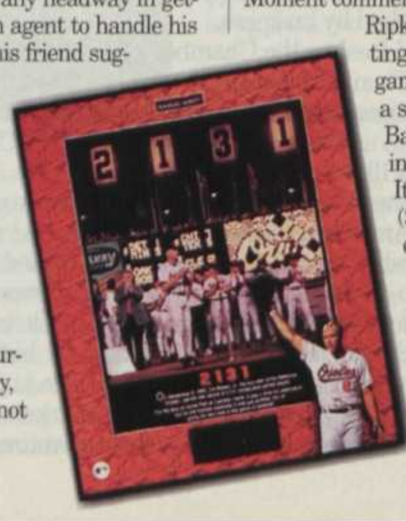

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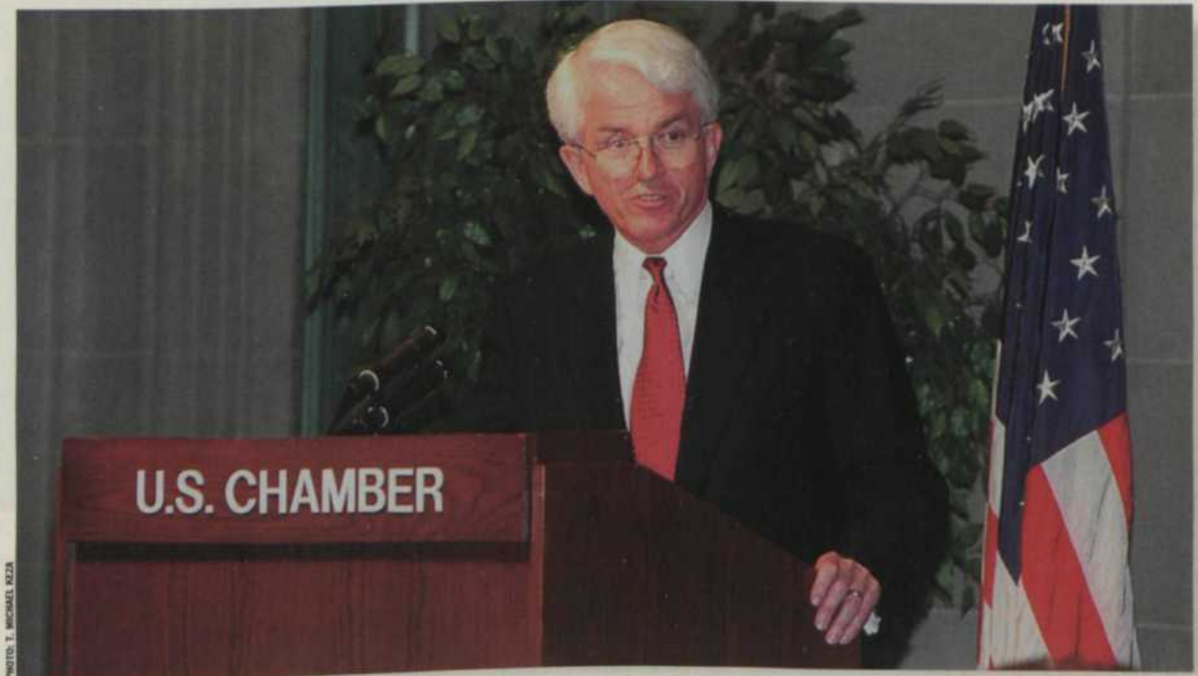


Thomas J. Donohue addresses the U.S. Chamber board of directors at its meeting June 11 after he was named president and CEO of the business federation, effective Sept. 1.

Thomas J. Donohue, named by the U.S. Chamber of Commerce board of directors to be the business federation's new president and CEO, pledged to raise the organization's visibility and strengthen its influence on public-policy matters when he assumes his new position Sept. 1.

"We're going to be everywhere," promised Donohue, who for the past 13 years has been president and CEO of the 45,000-member American Trucking Associations (ATA) in Alexandria, Va.

Donohue, 58, will succeed Richard L. Lesher as

Continued on Page 13A

Board Thanks Lesher

Michael S. Starnes, left, the U.S. Chamber's 1997-98 chairman, presents Chamber President Richard L. Lesher with a crystal globe in honor of his 22 years of service and "for the promotion of free-enterprise values throughout the nation and the world." Lesher, who received the honor at the Chamber board's June 11 meeting, steps down Sept. 1 as president of the business federation.

■ Chamber Benefit

Fidelity Plan Attracts Members

Bill Gibson was not thinking about joining the U.S. Chamber of Commerce when he began looking for a retirement plan for the 16 employees of his computer-systems company in Canonsburg, Pa. But, as the saying goes, one thing leads to another.

Gibson, president of Structured Mining Systems, which designs computer systems for the mining industry, joined the Chamber Jan. 1 after learning about the CHAMBERplan for Retirement offered by Fidelity Investments. Only U.S. Chamber members are eligible for this comprehensive, low-cost retirement program.

"To be brutally honest, we weren't looking to join the Chamber," says Gibson. "We'd looked at some retirement plans. I was familiar with Fidelity, and they told us about this [Chamber] option."

Designed primarily for firms with fewer than 100 employees, the Chamber-Fidelity program includes 401(k), Keogh, SEP-IRA, and SIMPLE—Savings Incentive Match Plan for Employees—plans.

Fidelity provides investment management, record-keeping services, and employee-communications materials for the retirement plans.

Gibson's company chose the 401(k) plan after joining the Chamber.

Harry Scott, co-founder of Carr Scott Software of Duxbury, Mass., did plan to join the Chamber, and one of the main reasons, he says, was to take advantage of the CHAMBERplan.

"We did some research [on retirement plans]," says Scott, whose 16-month-old firm writes computer software programs. "The CHAMBERplan looked like the best deal and the most comprehensive, giving us the most control and benefits."

Carr Scott Software joined the Chamber in January, and Scott's four employees are now in the Chamber-Fidelity 401(k) plan.

The CHAMBERplan offers convenience of administration and affordability, says Guy Patton, senior vice president for Fidelity Institutional Retirement Services Co. in Covington, Ky.

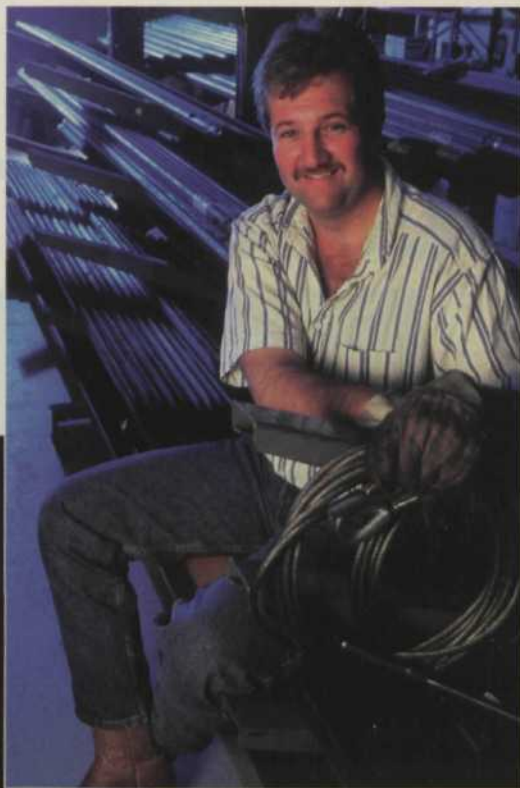


PHOTO: ©SCOTT GOLDSMITH

PHOTO: ©R. FRIEDMAN-BLACK STAR

Bill Gibson, right, president of Structured Mining Systems in Canonsburg, Pa., and Harry Scott, co-founder of Carr Scott Software in Duxbury, Mass., found the retirement plans offered by the U.S. Chamber of Commerce and Fidelity Investments to be an important incentive in their decisions to join the Chamber.

U.S. Chamber member companies receive a discount on the retirement plans. The cost of administering the 401(k) plan, for example, is $1,400 a year plus $28 per employee. Many financial-services firms charge $3,000 to $6,000 a year to administer such a plan.

Fidelity Investments, with total managed assets of more than $513 billion, is one of the country's leading providers of financial services. It is the nation's largest mutual-fund company and the second-largest discount brokerage firm.

■ Human Resources

Free Business Seminars Slated

Two free seminars on personnel and human-resources management for small-business owners will be presented this fall by the Edward Jones investment firm of St. Louis, *Nation's Business*, and the U.S. Chamber of Commerce's Small Business Institute.

The programs will be broadcast by satellite to various locations, including selected Edward Jones offices, state and local chambers of commerce, businesses, and government and educational institutions.

The dates and times for the seminars will be announced in the October *Business Advocate*.

For information about becoming a host site or finding the location of the downlink site nearest you, or for more information on the programs, call 1-800-835-4730 or (202) 463-5940.

■ Chamber Victory

Tax-Filing Penalties Are Delayed

Pressure from the U.S. Chamber of Commerce, other groups, and members of Congress has resulted in a six-month delay in the effective date of penalties for noncompliance with a rule requiring small firms to file federal payroll and income taxes electronically.

The Internal Revenue Service recently announced that it would not penalize small firms that fail to begin filing their taxes electronically by July 1. That was the date by which companies that paid more than $50,000 in employment taxes in 1995 were required by law to begin electronic filing. Businesses that failed to comply by July 1 would have been subject to a penalty of 10 percent of taxes owed.

Originally, the effective date of the tax-filing requirement was Jan. 1, 1997, but the deadline was delayed to July 1 after a storm of protest from the Chamber and other groups.

Further pressure on the Clinton administration to delay implementation of the tax regulation, particularly from Senate Small Business Committee Chairman Christopher S. Bond, R-Mo., resulted in the latest amnesty period, which will end Dec. 31.

PHOTO: T. MICHAEL KEZA

Sen. Christopher S. Bond, R-Mo., helped win a delay in penalties for noncompliance with an electronic tax-filing rule.

The electronic-payroll requirement was included in the North American Free Trade Agreement among the United States, Mexico, and Canada. The pact was approved by Congress in December 1993.

Companies with annual employment-tax deposits of $47 million or more already must make such deposits electronically to the IRS.

The Chamber continues to support legislation sponsored by Rep. Richard "Doc" Hastings, R-Wash., and Sen. Don Nickles, R-Okla., that would make the electronic deposit of payroll taxes optional for small businesses that have less than $47 million in annual employment-tax deposits; those firms will now face penalties if they don't begin electronic filing by Jan. 1, 1998.

The Chamber's concerns with the requirement include the costs that small firms might incur to get set up to make such deposits and the possibility that the IRS could gain access to taxpayers' bank accounts.

Contact your lawmakers through the Capitol switchboard at (202) 224-3121 and urge them to support the Hastings and Nickles bills.

■ Legal Update

Chamber Litigation Center Wins Again In Punitive-Damages Case

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, recently won reaffirmation of a victory regarding awards for punitive damages.

The Alabama Supreme Court reduced from $2 million to $50,000 a punitive-damages award to a car buyer who was not told that his new vehicle had been repainted. The NCLC had argued to the U.S. Supreme Court during its 1995-96 term that the $2 million award was "grossly excessive" and thus violated the due-process clause of the 14th Amendment to the Constitution. The high court agreed and sent the case back to the Alabama Supreme Court with instructions to reconsider the amount.

The U.S. Supreme Court ruling came in the case of *BMW of North America Inc. vs. Ira Gore Jr.* Gore had sued BMW in an Alabama state court after learning that parts of his new car had been repainted to correct damage to the finish incurred during shipping.

An Alabama jury awarded Gore $4,000 in compensatory damages and $4 million in punitive damages. The punitive-damages award was calculated by multiplying the $4,000 in compensatory damages by the 1,000 cars partially repainted and sold by BMW nationwide over 10 years. The Alabama Supreme Court ruled that the jury erred in penalizing BMW for the transactions that occurred outside that state. But, while just 14 repainted cars were sold in Alabama, the court reduced the award only by half, to $2 million.

PHOTO: JOHN DEWEY

The NCLC's Robin Conrad

In ordering the Alabama high court to reconsider its award, the U.S. Supreme Court said that the state court should take into account the ratio between the compensatory and punitive damages, how the award compared with civil or criminal penalties that could have been imposed, and the extent to which the conduct of the auto company was "reprehensible."

The Alabama court's decision "is a clear vindication of American business's long, hard fight against excessive punitive-damages awards," says Robin Conrad, vice president of the NCLC.

The Alabama Supreme Court has been one of the worst offenders in upholding excessive punitive-damages awards, Conrad says. "The fact that it listened to the message sent by the U.S. Supreme Court means that other state courts and lower federal courts likely will heed the message."

■ **Fiscal Policy**

Action On Budget Bill Urged

The U.S. Chamber of Commerce has praised representatives and senators for passing legislation to cut taxes and balance the federal budget and has urged them to quickly reconcile the differences in their respective fiscal measures.

On June 25 the House and Senate approved somewhat different spending bills; both would shave $138 billion from the budget deficit over five years—from fiscal 1998, which begins Oct. 1, through 2002. About $115 billion of the savings in both would come from changes in the Medicare system.

Differing measures to cut taxes also were passed. The House voted June 26 on an $85 billion net tax cut over five years; a day later the Senate approved a $77 billion net reduction.

Congress still is working to obtain an additional $138 billion of savings in the 13 appropriations bills that fund the military, national parks, and agriculture programs, among other items.

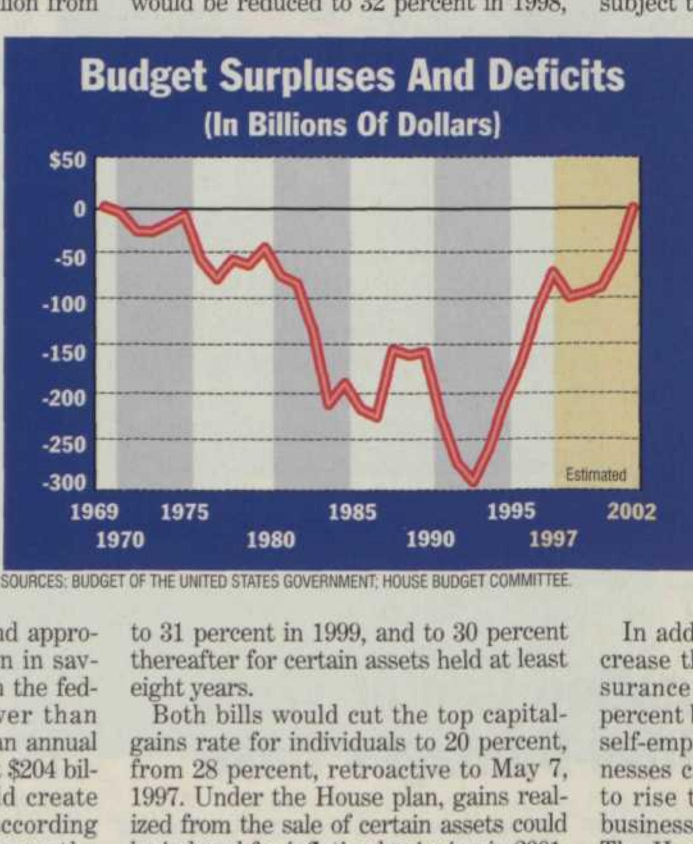
The total balanced-budget package—the spending, tax, and appropriations bills—plus $14 billion in savings from interest payments on the federal debt that would be lower than previously assumed, would mean annual deficit reductions totaling about $204 billion over five years and would create a $1 billion surplus in 2002, according to ecomonic assumptions from the Congressional Budget Office. (See the accompanying chart.)

"This legislation is a clear winner for the U.S. economy," says Bruce Josten, the U.S. Chamber's chief lobbyist. "Tax cuts and spending reductions are long overdue, and we urge Congress to quickly reconcile these bills and to forward legislation to President Clinton for his signature."

The tax-cut portion of the budget package contains several important business provisions.

The House tax plan, which is more generous to business than the Senate measure, includes a repeal of the alternative minimum tax for firms with average annual gross receipts of less than $5 million and a reduction in the corporate capital-gains-tax rate. It also includes provisions to expand the home-office deduction and to clarify rules for determining whether a worker is an employee or an independent contractor. The Senate bill does not include those provisions.

Under the House bill, the corporate capital-gains-tax rate, now 35 percent, would be reduced to 32 percent in 1998,



SOURCES: BUDGET OF THE UNITED STATES GOVERNMENT; HOUSE BUDGET COMMITTEE.

to 31 percent in 1999, and to 30 percent thereafter for certain assets held at least eight years.

Both bills would cut the top capital-gains rate for individuals to 20 percent, from 28 percent, retroactive to May 7, 1997. Under the House plan, gains realized from the sale of certain assets could be indexed for inflation beginning in 2001. The bills also would, among other things:

■ Gradually increase the exemption for estate taxes. The Senate measure would raise the current $600,000 exemption to $1 million by 2006; the House bill would increase it to $1 million by 2007. In both bills, the exemption would be indexed for inflation after reaching $1 million. Under current tax law, estates are subject to a tax rate of up to 55 percent of the value exceeding a lifetime $600,000 exemption.

■ Extend a waiver period for penalties on businesses that fail to comply with a requirement that they file federal payroll and income taxes electronically. Firms that paid more than $50,000 in employment taxes in 1995 were required to begin electronic filing by July 1 or face a penalty of 10 percent of taxes owed. But the Internal Revenue Service recently waived the penalty until Jan. 1, 1998. The House tax bill would extend the waiver period through Dec. 31, 1998, and the Senate bill would extend it through June 30, 1998.

In addition, the Senate bill would increase the tax deduction for health insurance for the self-employed to 100 percent by 2007. Under current law, the self-employed and unincorporated businesses can deduct 40 percent, which is to rise to 80 percent by 2006. Large businesses can now deduct 100 percent. The House bill does not include such a provision.

■ **Blue Chip Initiative**

Applications Being Accepted

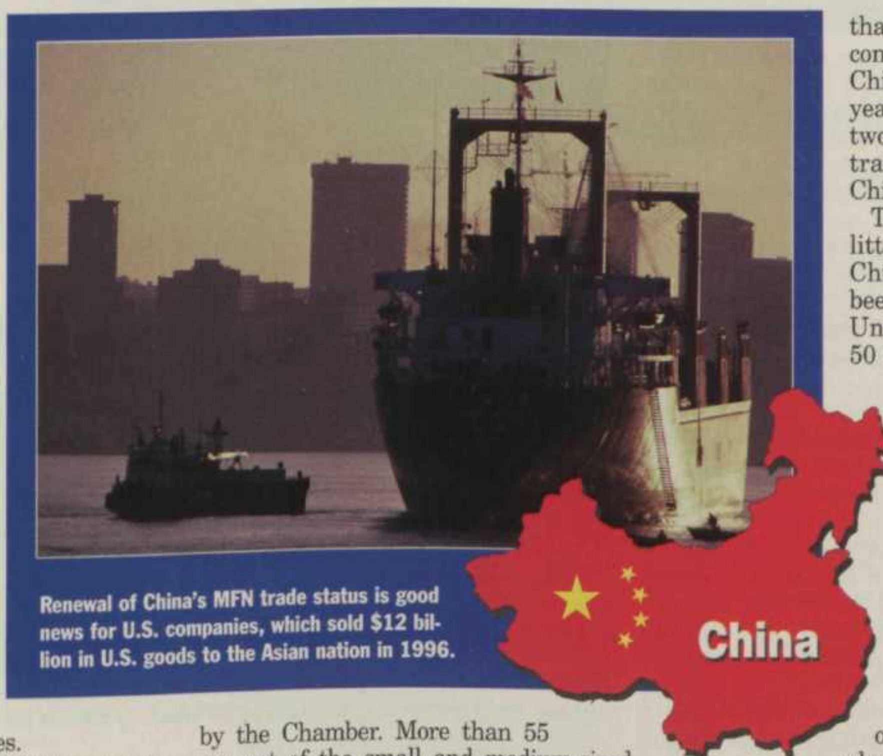
Has your small business faced adversity and overcome it? If so, your company could be chosen as an honoree by the Blue Chip Enterprise Initiative, an annual program that recognizes such firms.

The program is co-sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the half-hour morning television news program presented by MassMutual and the Chamber.

Applications for the Blue Chip award can be obtained by calling the program's toll-free number, 1-800-FOR-BCEI (1-800-367-2234), by contacting a MassMutual agent, or by sending an electronic-mail request to *bluechip@nationsbusiness.org*. The application also appears in the August issue of *Nation's Business*.

■ International

Business Wins On China Trade



Renewal of China's MFN trade status is good news for U.S. companies, which sold $12 billion in U.S. goods to the Asian nation in 1996.

The U.S. Chamber of Commerce scored a major victory for business with the recent defeat of a resolution in the House that would have prevented the United States from trading with China on a normal basis.

The House voted 259-173 on June 24 to reject the measure, which would have disapproved President Clinton's May 29 decision to grant most-favored-nation (MFN) trade status to China for another year. (China's MFN status runs from July 1 through June 30.)

MFN status is routinely granted to most of the nations with which the U.S. trades.

The attempt to deny MFN status to China was based primarily on the country's poor record on human rights. The Chamber contended that denying or restricting the country's trade status would hurt the forces in China most sympathetic to political and trade reforms.

The importance of China as a market for U.S. goods and services was underscored by a recent survey conducted by the Chamber. More than 55 percent of the small and medium-sized U.S. companies responding to the survey said they are currently exporting to China. Among the businesses that do not export to China, more than 71 percent indicated that they are exploring market opportunities there.

The Chamber's survey also showed that 32 percent of U.S. firms that export to China have sales to the country exceeding $2 million a year, more than half have been conducting business in China longer than five years; and more than two-thirds rated their trade ventures in China as successful.

There seems to be little doubt that the Chinese market has been lucrative for the United States. All 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands derive some income from trade with China. Combined, they received nearly $12 billion in 1996. (See the table below.)

The Chamber survey was part of a wide-ranging education and lobbying campaign on maintaining normal trade relations between the U.S. and China.

The Chamber's efforts also included visits to lawmakers' offices by Chamber lobbyists, member businesses, and representatives of the American chambers from China and Hong Kong and a campaign to educate the media about MFN for China.

Value Of Exports To China In 1996

Alabama	$142,405,413
Alaska	154,112,221
Arizona	228,037,581
Arkansas	49,456,948
California	1,700,571,089
Colorado	40,987,785
Connecticut	59,829,635
Delaware	6,858,391
District of Columbia	1,956,612
Florida	580,922,233
Georgia	207,891,126
Hawaii	4,483,271
Idaho	17,861,966
Illinois	666,828,557
Indiana	155,946,178
Iowa	24,863,544
Kansas	$53,296,713
Kentucky	35,111,244
Louisiana	1,071,678,361
Maine	9,886,563
Maryland	75,852,007
Massachusetts	142,324,596
Michigan	215,572,085
Minnesota	60,856,631
Mississippi	105,275,269
Missouri	54,042,481
Montana	7,512,396
Nebraska	23,478,339
Nevada	11,312,739
New Hampshire	9,109,105
New Jersey	151,144,489
New Mexico	16,832,375
New York	$424,936,024
North Carolina	297,245,167
North Dakota	401,190
Ohio	202,642,137
Oklahoma	53,151,425
Oregon	64,561,416
Pennsylvania	171,401,993
Puerto Rico	14,910,093
Rhode Island	4,445,251
South Carolina	164,402,591
South Dakota	1,778,178
Tennessee	206,906,401
Texas	1,253,608,080
Utah	23,747,631
Vermont	3,772,596
Virginia	154,926,377
Virgin Islands	$25,299
Washington	1,487,157,624
West Virginia	38,999,379
Wisconsin	108,677,695
Wyoming	5,129,771
Unknown U.S. Origin	1,208,796,367
TOTAL	$11,977,920,628

SOURCES: U.S. CENSUS BUREAU AND U.S. CHAMBER OF COMMERCE

■ Board Action

President Chosen; Policy Adopted

In its most important recent action, the board of directors of the U.S. Chamber of Commerce voted to make Thomas J. Donohue president and CEO of the business federation effective Sept. 1.

The board also clarified, in a new policy statement, an existing position on employment law and regulations in response to recent proposals by the Clinton administration.

The actions took place at the board's regularly scheduled meeting June 11. The selection of Donohue followed a three-month search by executive search firm Korn/ Ferry International in cooperation with a five-member board committee.

Donohue, who has been president and CEO of the American Trucking Associations in Alexandria, Va., for 13 years, will succeed Richard L. Lesher, who has run the Chamber for 22 years and who will step down Sept. 1. (For more information on Donohue, see Page 1A.)

The board's policy declaration on edicts by the administration states: "Neither the president nor any executive agency may issue orders or regulations which are inconsistent with the intent of Congress or which impose punitive sanctions on or add obligations to employers.

"Such orders and regulations exceed the constitutional authority granted the president and federal agencies."

The board's statement gives the Chamber staff greater authority to fight any such federal orders or regulations.

Clinton recently proposed an executive order—later changed to a memorandum—to encourage federal agencies to award federally funded construction jobs to unionized firms.

Another presidential order requires firms that do business with the government to have "satisfactory" labor-management relations. Companies with "unsatisfactory" records of complying with laws governing workplace safety and health, wages and benefits, equal opportunity, and union organizing and bargaining could be barred from bidding on federal contracts under the order.

House Speaker Newt Gingrich addressed the board, laying out the Republicans' agenda for the rest of the year and urging business to support the GOP's efforts to balance the budget and cut taxes.

The Georgia Republican praised Lesher's tenure as president of the Chamber. "The entire business community owes you a debt of gratitude," he told Lesher.

Sen. Bill Frist, R-Tenn., the GOP's point man on Medicare reform and a heart surgeon before his election to the Senate in 1994, addressed the board about congressional efforts to reform the federal health-care system for the elderly and the long-term disabled.

The budget bills approved by the House and Senate would slow the growth in Medicare spending and make other changes, including an increase in Medicare premiums. Without changes, the system will go broke in 2001, according to a report of the Medicare trustees.

PHOTO: T. MICHAEL KEZA

House Speaker Newt Gingrich, R-Ga., spoke to the U.S. Chamber's board of directors at its June meeting. He urged business to support GOP efforts to balance the budget and cut taxes.

■ Publication

Lesher Book Available In Paperback

A book on the newfound political activism of small-business people, written by U.S. Chamber of Commerce President Richard L. Lesher, is now available in paperback.

Published in hardback in May 1996, the book, *Meltdown on Main Street: Why Small Business Is Leading the Revolution Against Big Government*, chronicles the increased political activity by small-business owners and managers in the 1994 elections and how they were spurred to activism by government actions, especially by regulatory burdens imposed on business. The paperback version, subtitled *How Government Is Obstructing Small Business In America*, includes a look at small-business involvement in the November 1996 elections.

Lesher, who steps down as president of the Chamber Sept. 1, also recounts in the book many of the more dramatic events of his 22-year career as head of the nation's largest business federation.

The paperback version of Lesher's book (Dutton, $11.95) is available in bookstores nationwide or from the publisher by calling (212) 951-8891.

GAIN UPDATE

GRASSROOTS ACTION INFORMATION NETWORK

U.S. Chamber of Commerce Federation

Health-Care Bills Would Expand Pooling Capability

Small Businesses Could Join Association Insurance Plans Free Of State Mandates

Enactment of legislation to make health coverage more affordable for the employees of small businesses is the U.S. Chamber of Commerce's highest health-care-reform priority for the current Congress.

The business federation is backing bills introduced in May by Rep. Harris W. Fawell, R-Ill., and Sen. Tim Hutchinson, R-Ark.

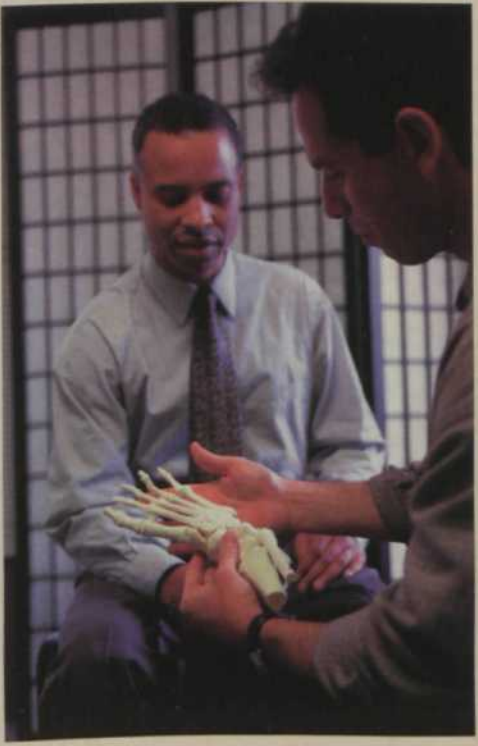
Known as the Expanded Portability and Health Insurance Coverage Act of 1997 (EPHIC), the companion measures have gained bipartisan support in the House and Senate. The Fawell bill, H.R. 1515, had 141 co-sponsors as of mid-June. The Senate bill, S. 729, had five co-sponsors.

Prospects for enactment of the Fawell bill increased in early June when the House Education and Workforce Committee voted to attach the legislation to the fiscal 1998 budget measure being crafted by lawmakers.

The health-care provisions would allow small businesses and self-employed individuals to join to purchase health insurance through health plans set up by associations.

It would also allow the U.S. Chamber, state and local chambers, and other well-established trade, business, and professional associations to form regional and national group health plans under the federal Employee Retirement Income Security Act. That law governs employer-provided benefit plans and exempts such plans from state mandates on benefit levels.

Some business organizations already offer health plans, but those plans must comply with state health-benefits mandates or the organizations must be self-insured. Under the Fawell-Hutchinson bills, businesses could join association health plans that would be free of state health-care mandates. States have adopted more than 1,000 mandated health benefits nationwide, and lawmakers seem increasingly inclined to intervene in the health-care marketplace.



According to some estimates, the pooled-purchasing arrangement under EPHIC would save companies about 30 percent in administrative costs. In addition, the Chamber points out, escaping the accumulated burden of state benefit mandates would drastically reduce the cost of health coverage.

Opponents of the legislation have argued that health-care quality would suffer as a consequence of the ERISA pre-emption. But a 1995 study by the international consulting firm KPMG Peat Marwick found that most existing ERISA plans provide a higher level of benefits than traditional health plans.

Other opponents of the EPHIC arrangement have argued that its passage would hinder state health-insurance regulation. But the Chamber says that the patchwork of state laws has succeeded only in increasing insurance costs.

Moreover, the EPHIC legislation would strengthen state and federal enforcement against bogus health plans, such as ones set up to avoid covering unhealthy individuals or high-risk industries. Under the EPHIC bill—and a health-care-reform bill passed last year—such practices, known as adverse selection, are illegal.

Association health plans would be required to market to and accept all employers regardless of their employees' health-care claims histories. In addition, such plans could not exclude individual employees, increase rates for employers with a history of higher claims, or force employers out of the plan once they are accepted.

"The EPHIC bill," says Neil Trautwein, manager of health-care policy for the Chamber, "will bring affordable health-insurance coverage within the reach of small business, thereby insuring more workers and their families."

By some estimates, as many as half of the 41 million uninsured Americans would gain access to affordable coverage as a result of the EPHIC measure. Larger firms also would benefit from increased coverage in the small-business marketplace through the reduction of cost shifting from uninsured workers.

"Making health-insurance coverage more affordable to small

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.

business," Trautwein says, "is the critical need in our health-care system today."

Legislation Would Boost Accountability Of Congress, Agencies For Rules' Impact

A new effort is under way to increase the accountability of Congress and the regulatory agencies that write and enforce federal rules.

The U.S. Chamber of Commerce is backing legislation introduced in the House that would impose such accountability and open the regulatory process to greater public scrutiny.

The Chamber-backed bill was introduced May 14 by Reps. Lamar Smith, R-Texas, and Gary A. Condit, D-Calif.

Known as the Regulatory Accountability Act, the bill would amend the Unfunded Mandates Reform Act of 1995 to ensure that greater attention is paid to costs of proposed regulations and that the allowable costs are limited.

The 1995 law, whose enactment was strongly supported by the U.S. Chamber, requires the federal government to assess and make public the possible impact of proposed major regulations on the public and private sectors.

Major rules are defined in the law as those costing businesses collectively more than $100 million to implement and state and local governments more than $50 million.

Under the 1995 statute, lawmakers can halt the consideration of a proposed mandate on the public sector that exceeds the $50 million threshold, but no similar provision exists for stopping consideration of private-sector mandates beyond the $100 million threshold.

The Smith-Condit bill would require Congress to write into any bill that imposed a mandate on the private sector the estimated costs for complying with the requirement. If Congress failed to include a compliance-cost estimate, any lawmaker could prevent further consideration of the legislation until the estimates were completed.

The lawmaker would do this by raising a "point of order"— a parliamentary maneuver that ends debate on a bill.

The legislation also would limit the amount of money that federal agencies could require businesses collectively to spend to comply with those rules. The amount would be set by Congress.

Rule-making agencies would be required to draft regulations that do not exceed the compliance costs specified for each mandate. If an agency were unable to operate within the specified limits, it would be required to go to Congress and make a case for a higher compliance-cost estimate. For the regulation to advance, lawmakers would have to vote to raise the estimate.

Finally, the accountability bill would allow the public to comment on whether draft rules could be implemented within the compliance costs specified. Only after all those steps were taken could a regulation become final and enforceable.

"Nothing in this legislation will prevent reaching the societal goals that many regulations were meant to address, such as clean water and air and safe working conditions," says Sally Jefferson, manager of regulatory policy for the Chamber. "It simply would require Congress and federal regulators to be honest about the costs of rules to be borne by those who will foot the bill."

Action on the Smith-Condit bill is uncertain. There is no Senate companion bill.

Write or call your representative and urge him or her to co-sponsor the Smith-Condit Regulatory Accountability Act. Ask your senators to pursue similar legislation in the Senate. The addresses are U.S. House of Representatives, Washington, D.C. 20515 and U.S. Senate, Washington, D.C. 20510. To call, dial the Capitol switchboard at (202) 224-3121.

Chamber-Backed Bills Would Benefit Small Firms In Three Important Ways

The U.S. Chamber of Commerce is backing legislation that could greatly benefit the self-employed and those who operate home-based businesses.

Two pending measures, a House bill introduced by Rep. James Talent, R-Mo., and a Senate bill proposed by Sen. Christopher S. "Kit" Bond, R-Mo., would:

- Make health-insurance costs 100 percent tax-deductible for the self-employed.
- Make it easier for those who use a portion of their home as a business office to take a tax deduction.
- Clarify Internal Revenue Service rules related to the use of independent contractors in business operations.

"There is no acceptable rationale for home-based businesses and the self-employed not to have the same deductions as other businesses," says Martin A. Regalia, vice president and chief economist for the Chamber.

The health-insurance provision would immediately increase to 100 percent, from 40 percent, the tax deduction for medical costs of unincorporated businesses and the self-employed. Currently, the tax deduction is scheduled to rise in increments to 80 percent by 2006. The deduction will increase to 45 percent in 1998, 50 percent in 2003, 60 percent in 2004, and 70 percent in 2005.

The proposed provision would put unincorporated businesses and the self-employed on an equal footing with corporations, which can deduct 100 percent of their health-care costs as a business expense.

The Talent and Bond bills would allow a taxpayer who uses a home office for "essential administrative or management activities" to qualify for the home-office deduction.

Those who qualify are allowed to deduct expenses directly related to the use of an office in the home or a percentage of the total cost of operating the entire home. The office must be deemed "necessary" in that the taxpayer has no other location for performing the essential administrative or management activities of the business.

In 1993, the U.S. Supreme Court ruled that to qualify for the home-office deduction, the importance of business activities conducted at home and the amount of time spent there must exceed the importance of business activities and the amount of time spent outside the home. The ruling applies even if there is no location outside the home to perform business activities.

To clarify the IRS worker-classification rules, the legislation would consider an individual to be an independent contractor if he or she:

- Agreed to perform a service for a particular amount of time or to complete a specific result or task.
- Had the ability to realize a profit or loss.
- Incurred significant unreimbursed expenses.

Under existing independent-contractor rules, the IRS uses a 20-point test to determine whether the independent-contractor status is accurate. If an individual is misclassified as an independent contractor rather than as an employee, the erring business could be subject to back taxes, penalties, and interest.

Independent contractors are responsible for paying their own payroll taxes, while employers must pay half of their employees' payroll taxes and provide benefits.

In addition to meeting the newly proposed criteria, an independent contractor would have to meet one of the following three tests:

- Have a principal place of business.
- Pay a fair market rent for use of a company's facility.
- Operate primarily with equipment not supplied by a company for which the individual is performing a service.

He or she could not provide services primarily for a single company at its facility. An independent contractor also would be required to have a written contract with a company stating that services are being provided and that he or she will not be treated as an employee of the company.

An individual would qualify for independent-contractor status if he or she had a written contract with a company and conducted "business as a properly constituted corporation or limited liability company ... and [did] not receive ... benefits that are provided to employees" of the company for which work is being performed.

Says the Chamber's Regalia: "This proposal addresses three areas of vital concern to the small-business community and will help cultivate the seeds of tomorrow's jobs."

Measures Would Broaden Deductibility Of Individual Retirement Accounts

The U.S. Chamber of Commerce is supporting legislation that would expand individual retirement accounts.

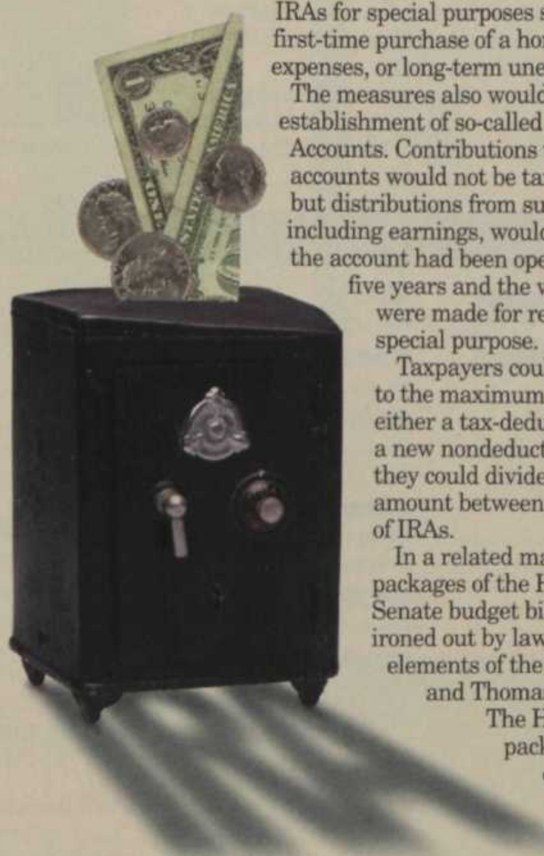
Bills have been introduced in the House and Senate to create "Super IRAs," which, the Chamber says, would boost savings rates and provide retirement security to millions of Americans.

Sponsored in the Senate by William V. Roth Jr., R-Del., and John B. Breaux, D-La., and in the House by William M. Thomas, R-Calif., and Richard E. Neal, D-Mass., the measures would allow an individual to deduct from taxable income up to $2,000 annually contributed to an IRA regardless of whether the individual or the person's spouse is covered by an employer's pension plan.

As part of a 1986 tax bill, Congress placed income limits on the tax deductibility of contributions to IRAs. If an individual or his or her spouse is covered by a retirement plan, such as a 401(k) plan, at certain income levels—$35,000 for an individual and $50,000 for married couples filing joint tax returns—no amount of an IRA contribution is tax-deductible. Individuals who are not covered by a pension plan may deduct up to $2,000 annually from their taxable income for contributions to an IRA.

The pending legislation, S. 197 in the Senate and H.R. 446 in the House, also would:

- Phase out the income thresholds for deductible IRA contributions.
- Index the $2,000 contribution limit for inflation (raising the limit in $500 increments).
- Allow penalty-free withdrawals from IRAs for special purposes such as the first-time purchase of a home, educational expenses, or long-term unemployment.



The measures also would authorize establishment of so-called IRA Plus Accounts. Contributions to these accounts would not be tax-deductible, but distributions from such accounts, including earnings, would be tax-free if the account had been open for at least five years and the withdrawals were made for retirement or a special purpose.

Taxpayers could contribute up to the maximum IRA amount to either a tax-deductible IRA or to a new nondeductible IRA, or they could divide the maximum amount between the two types of IRAs.

In a related matter, the tax packages of the House and Senate budget bills now being ironed out by lawmakers contain elements of the Roth-Breaux and Thomas-Neal bills.

The House tax package would create a nondeductible IRA and would allow penalty-free withdrawals for certain purposes, such as educational expenses.

The IRA provisions in the Senate tax package, which were crafted by Roth, would also create nondeductible IRAs. They also would double the income thresholds for deductible IRAs and would allow a nonworking spouse to fully deduct from income—up to the current $2,000 limit—contributions to IRAs regardless of whether his or her spouse was covered by an employer's retirement plan.

The Senate bill also would allow penalty-free withdrawals from IRAs for educational expenses, for the first-time purchase of a home, or for long-term unemployment.

Call your senators and representative and urge them to co-sponsor the Roth-Breaux and Thomas-Neal bills to restore the full tax deductibility of IRAs and to expand the accounts to boost savings and to provide retirement security. Also ask them to support the IRA provisions in the budget bills. Lawmakers can be reached through the Capitol switchboard at (202) 224-3121.

Thank Senators Who Supported Comp-Time Bill

The U.S. Chamber of Commerce is asking its members to thank senators who voted to cut off debate so that a vote could be taken on a measure that would have allowed employees to take time off from their jobs in lieu of overtime pay.

Chamber members are also being asked to express their disappointment with those who voted against ending debate on the Chamber-backed measure.

Senators may be reached through the Capitol switchboard at (202) 224-3121.

Senators who support the Family Friendly Workplace Act, sponsored by Sen. John Ashcroft, R-Mo., twice failed to cut off a filibuster of the legislation by its opponents. Senators voted 53-47 on May 15 and 51-47 on June 4 to end debate and bring up the measure for a final vote. But 60 votes are needed to break a filibuster.


Ashcroft

In March, the House approved a similar bill, which would allow employers to give their hourly workers the option of taking compensatory time off instead of overtime pay for hours worked over 40 in a week. Employees would accrue comp-time leave at the rate of 1.5 hours for each hour of overtime worked.

Listed below is how each senator voted on the June 4 effort to end the filibuster and bring up the comp-time bill for a vote. GU

Voted For

ALABAMA
Shelby (R)
Sessions (R)

ALASKA
Stevens (R)
Murkowski (R)

ARIZONA
McCain (R)
Kyl (R)

ARKANSAS
Hutchinson (R)

COLORADO
Allard (R)

DELAWARE
Roth (R)

FLORIDA
Mack (R)

GEORGIA
Coverdell (R)

IDAHO
Craig (R)
Kempthorne (R)

INDIANA
Lugar (R)
Coats (R)

IOWA
Grassley (R)

KANSAS
Brownback (R)
Roberts (R)

KENTUCKY
McConnell (R)

MAINE
Snowe (R)
Collins (R)

MICHIGAN
Abraham (R)

MINNESOTA
Grams (R)

MISSISSIPPI
Cochran (R)
Lott (R)

MISSOURI
Bond (R)
Ashcroft (R)

MONTANA
Burns (R)

NEBRASKA
Hagel (R)

NEW HAMPSHIRE
Smith (R)
Gregg (R)

NEW MEXICO
Domenici (R)

NORTH CAROLINA
Helms (R)
Faircloth (R)

OHIO
DeWine (R)

OKLAHOMA
Nickles (R)
Inhofe (R)

OREGON
Smith (R)

PENNSYLVANIA
Santorum (R)

RHODE ISLAND
Chafee (R)

SOUTH CAROLINA
Thurmond (R)

TENNESSEE
Thompson (R)
Frist (R)

TEXAS
Gramm (R)
Hutchison (R)

UTAH
Hatch (R)
Bennett (R)

VIRGINIA
Warner (R)

WASHINGTON
Gorton (R)

WYOMING
Thomas (R)
Enzi (R)

Voted Against

ARKANSAS
Bumpers (D)

CALIFORNIA
Feinstein (D)
Boxer (D)

COLORADO
Campbell (R)*

CONNECTICUT
Dodd (D)
Lieberman (D)

DELAWARE
Biden (D)

FLORIDA
Graham (D)

GEORGIA
Cleland (D)

HAWAII
Inouye (D)
Akaka (D)

ILLINOIS
Moseley-Braun (D)
Durbin (D)

IOWA
Harkin (D)

KENTUCKY
Ford (D)

LOUISIANA
Breaux (D)
Landrieu (D)

MARYLAND
Sarbanes (D)
Mikulski (D)

MASSACHUSETTS
Kennedy (D)
Kerry (D)

MICHIGAN
Levin (D)

MINNESOTA
Wellstone (D)

MONTANA
Baucus (D)

NEBRASKA
Kerrey (D)

NEVADA
Reid (D)
Bryan (D)

NEW JERSEY
Lautenberg (D)
Torricelli (D)

NEW MEXICO
Bingaman (D)

NEW YORK
Moynihan (D)
D'Amato (R)

NORTH DAKOTA
Conrad (D)
Dorgan (D)

OHIO
Glenn (D)

OREGON
Wyden (D)

PENNSYLVANIA
Specter (R)

SOUTH CAROLINA
Hollings (D)

SOUTH DAKOTA
Daschle (D)
Johnson (D)

VERMONT
Leahy (D)

VIRGINIA
Robb (D)

WASHINGTON
Murray (D)

WEST VIRGINIA
Byrd (D)
Rockefeller (D)

WISCONSIN
Kohl (D)
Feingold (D)

Did Not Vote

RHODE ISLAND
Reed (D)

VERMONT
Jeffords (R)*

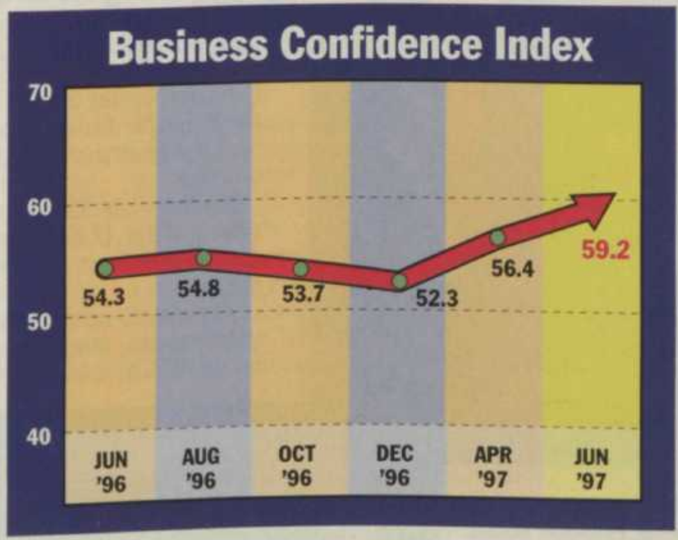
* Voted for the measure in May.

■ Business Outlook

Confidence In The Economy Soars

Business's confidence in the economy reached its highest level since February 1995 in the U.S. Chamber of Commerce's latest member poll, conducted in June.

The Business Confidence Index, which is based on the Chamber's bimonthly Business Ballot poll, was 59.2 in June—up from 56.4 in April. (See the accompanying chart.) In February 1995, the index was 59.0.



The Business Confidence Index is based on responses to three economic-outlook questions asked in each Business Ballot poll. The ballot also asks questions about other timely issues, such as legislation pending in Congress.

In the most recent poll, nearly 29.9 percent of the respondents said they expected the economy to improve over the next six months. That was up from the 22.7 percent who indicated they were optimistic in April.

Respondents who believed the economy would get worse in the next six months fell significantly, to 19.3 percent from 28.5 percent in April. And 51 percent said they expected no change in the economy.

Respondents also were optimistic about the outlook for their own firms in June. In the June poll, 43.7 percent said they expected sales to increase over the next six months. That compares with 44.7 percent in April who expected sales to increase.

Just 15.3 percent in the June poll said they expected sales to decrease, the same percentage as in April. Expecting no change were 41 percent, compared with 40 percent in April.

On the employment front, 24.9 percent said they expected to add jobs over the next six months, compared with 24.5 percent in April. The percentage of firms that indicated they would cut jobs was up slightly, at 10.6 percent, compared with 9.8 percent in April. Respondents expecting no change in the size of their work forces made up 64.5 percent of the total, compared with 65.7 percent in April.

No economic-outlook poll was conducted in February, when Chamber members were surveyed instead on tax-reform options.

■ Ballot Results

Reform Tax Code, Say Firms

Congress should place a high priority on simplifying the tax system, said more than 90 percent of the respondents to the latest Business Ballot poll of U.S. Chamber members.

Federal lawmakers have been seriously discussing options for revamping the tax system since Republicans gained control of Congress in 1995, but no legislation to overhaul the system has been introduced.

Among the proposals most often mentioned are a flat tax and a national sales tax. The U.S. Chamber supports simplification of the current system but has not taken a position on any proposal.

Just 8 percent of the respondents to the June poll said that Congress should make tax simplification a medium priority, and 2 percent said it should be a low priority.

On a question about the federal government's efforts to turn over functions it performs to the private sector, 87.8 percent of the respondents said that such efforts are too weak, 3.1 percent said they are too great, and 9.1 percent said they are about right.

The U.S. Chamber strongly supports privatization of government functions. It is backing legislation known as the Freedom From Government Competition Act. The measure, pending in Congress, would set a consistent federal policy on contracting out, or outsourcing, jobs performed by the federal government.

Respondents also voiced opinions on the government's involvement in highway issues. Just under 65 percent said the federal government is not paying enough attention to issues such as road capacity and conditions, while 13.5 percent said the government's involvement is adequate and 21.6 percent were undecided.

Ballot respondents want the tax system simplified.

Later this year, Congress will consider reauthorizing the 1991 Intermodal Surface Transportation Efficiency Act, which provides federal funds for transportation projects such as road and bridge repairs. The highway law expires Sept. 30.

The Chamber is strongly supporting efforts to reauthorize the highway law.

■ Statesmanship

A Wide-Ranging Influence

Richard L. Lesher, who will step down as president of the U.S. Chamber of Commerce on Sept. 1, led the effort to establish the federation as a powerful voice for business across America and around the world.

During his 22-year tenure, Lesher met often with U.S. presidents and congressional leaders and with foreign heads of state.

For more on Lesher's leadership accomplishments, see the editorial in the August issue of *Nation's Business.*

PHOTO: T. MICHAEL REZA

PHOTO: T. MICHAEL REZA

In the photo above, U.S. Chamber President Richard L. Lesher, center, President Ronald Reagan, left, and U.S. Treasury Secretary James A. Baker meet at the Chamber in April 1986. At right, Lesher meets in 1989 with Chinese Premier Li Peng, right, and an aide. During his stay in Beijing, the Chamber president also spoke to students at the School of International Business.

PHOTO: T. MICHAEL REZA

In the photo at right, U.S. Chamber President Richard L. Lesher, right, discusses issues with President George Bush at a 1991 education summit at the Chamber.

PHOTO: T. MICHAEL REZA

In the photo above, U.S. Chamber President Richard L. Lesher, right, talks with Sen. Trent Lott, R-Miss., following the majority leader's January 1997 address to business leaders at the Chamber.

PHOTO: FRANCES BORCHARDT

In the photo at left, U.S. Chamber President Richard L. Lesher, left, participates in an April 1996 "It's Your Business" television show on campaign-finance reform with, from left, Sen. Mitch McConnell, R-Ky.; moderator Meryl Comer; then-Sen. Bill Bradley, D-N.J.; and Donald Simon of Common Cause.

■ Leadership

New President To Build On Chamber's Success

Chamber President Richard L. Lesher, left, introduces President-elect Thomas J. Donohue to the Chamber staff.

Continued from Page 1A

the Chamber's top executive.

"We're going to greatly expand the reach and influence of this organization in the future," Donohue said in his acceptance remarks to the board. "Wherever and whenever there is a debate under way on the important economic, budget, tax, and regulatory questions facing American business, no one will ever have to ask, 'Where is the Chamber?'"

Donohue later spoke to state and local chamber and trade-association leaders and to the Chamber staff. He vowed to create a "truly awesome organization ... so important that no American business will want to be left out of it."

Donohue said strengthening the organization's revenue and membership bases will be a major focus, and he pledged to take on trial lawyers, union bosses, and environmental extremists.

"It is time to recognize that there are those in our society today who, by their actions, bring harm to the business entrepreneurs and workers of our country," Donohue told the Chamber board.

He also said the business community, led by the Chamber, must make a stronger commitment to fighting crime and drugs. "We can no longer tolerate those who terrorize our workplaces, steal our products, and poison our children and our employees," Donohue said. "All Americans have a responsibility to stand up against these destructive forces, and business is no exception."

Donohue's selection as Chamber president followed Lesher's announcement in February that he would step down from the job he has held since 1975, to pursue other activities.

A five-member board search committee and Korn/Ferry International, an executive-search firm, worked for three months identifying and interviewing candidates, including other association leaders, current and former members of Congress, and governors.

"Tom Donohue is well-known as a forceful advocate for regulatory reform and a staunch opponent of government mandates and higher taxes on the private sector," said Michael S. Starnes, 1997-98 Chamber chairman and the chairman, president, and CEO of M.S. Carriers, Inc., a truckload-transportation and logistics-management firm in Memphis, Tenn.

Thomas J. Donohue, the U.S. Chamber's president- and CEO-elect, second from left, greets Sen. Bill Frist, R-Tenn., at the Chamber's June 11 board meeting while board member Carol Ann Rae and the Chamber's Bruce Josten, right, and Lonnie Taylor look on.

During his tenure at the ATA, Donohue more than tripled the organization's annual revenues and doubled its membership. He established the ATA Litigation Center to advance industry interests in the courts; created TranSat, a national television network; and developed the ATA Foundation, a trucking-industry policy-research organization.

Before joining the ATA, Donohue served from 1977 to 1984 as group vice president for development at the Chamber. Previously, he worked in a number of senior management positions for the U.S. Postal Service, including deputy assistant postmaster general in Washington, D.C., and he was vice president of Fairfield University in Fairfield, Conn.

Donohue currently serves on several boards of directors, including Marymount University in Arlington, Va., and the Hudson Institute, a public-policy research organization in Indianapolis. He also serves on the business advisory committee of the Transportation Center at Northwestern University in Evanston, Ill.

Donohue earned a bachelor's degree from St. John's University in Jamaica, N.Y., and an MBA from Adelphi University in Garden City, N.Y.

Donohue and his wife, Liz, live in Potomac, Md. They have three sons.

■ Promotion

Josten Named To New Position

Bruce Josten

Bruce Josten, the chief lobbyist for the U.S. Chamber of Commerce, has been promoted to the new position of executive vice president of government relations for the organization, effective Sept. 1.

Josten, who has been the Chamber's senior vice president for membership policy, will oversee all political and government-affairs activities, said Thomas J. Donohue, the organization's president- and CEO-elect, who made the announcement.

"Among the key policy-makers in Washington, Bruce Josten is widely regarded as one of the most effective and intelligent advocates for American business," said Donohue.

Environment

Climate-Treaty Concerns Voiced

PHOTO: T. MICHAEL KEZA

Panelists at a recent town-hall meeting on global climate change held at the U.S. Chamber of Commerce were, left to right, Ronald Lyons, president of Stewart Brothers Paint Co. of Alliance, Ohio; Diane Steed, president of the Coalition for Vehicle Choice; moderator Harvey Alter, manager of resources policy for the U.S. Chamber; Gail McDonald, president and CEO of the Global Climate Coalition; and James Miller, president of Citizens for a Sound Economy.

An ad hoc coalition of Democrats and Republicans, academicians and citizens' groups, and labor and business organizations, including the U.S. Chamber of Commerce, is urging the Clinton administration not to sign an international treaty on global climate change.

They say that doing so could have severe consequences for the U.S. economy.

Currently, U.S. negotiators are set to agree to a legally binding United Nations treaty on so-called greenhouse gases—primarily carbon dioxide—that some studies have linked to changes in global climate. The world's largest industrialized countries will meet in Kyoto, Japan, in December to finalize a draft of the treaty, known as the Berlin Mandate.

The Berlin Mandate calls for agreement on mandatory cuts in the use of fossil fuels, such as oil and coal, which are some of the main sources of carbon dioxide. It is expected that the treaty will require each developed nation to cut greenhouse-gas emissions by 10 to 15 percent by 2010.

According to several studies, a reduction in fossil-fuel use of the magnitude being considered in the U.N. treaty would likely require a broad-based energy tax in the U.S. designed to reduce consumption of fossil fuels. Such a tax could knock 2 to 3 percentage points from the growth rate of the gross domestic product and would cost 600,000 jobs annually, according to a study by DRI/McGraw Hill.

At a recent televised town-hall meeting on the subject held at the U.S. Chamber's Washington, D.C., headquarters and sent by satellite to downlink sites nationwide, concern about the treaty was expressed from several quarters.

In taped remarks, Rep. John D. Dingell, D-Mich., who is the ranking minority member on the House Commerce Committee, which has jurisdiction over environmental matters, said that the U.N. treaty would hurt U.S. companies' ability to compete in the global market. He added that there is "no adequate scientific evidence" that fossil-fuel use has caused global climate changes.

Some climatologists maintain that carbon dioxide and other gases have contributed to a greenhouse effect, trapping solar heat in the Earth's atmosphere and causing potentially disastrous environmental consequences.

Other climatologists, however, say climate change is driven largely by natural phenomena and that the climate has always been subject to warming and cooling.

Recent satellite data from the U.S. National Aeronautics and Space Administration show, in fact, a slight cooling trend since the satellites were launched 17 years ago.

Sen. Chuck Hagel, R-Neb., who also addressed the town meeting, said that any effort to influence the global environment should be based on good science and common sense and must ensure stable economies and stable markets.

A panel representing business and consumer groups discussed the implications for U.S. companies and consumers of a binding treaty.

Diane Steed, president of the Coalition for Vehicle Choice, a consumer group based in Washington, said that one likely result of the treaty would be a carbon tax, with higher levies on gasoline.

Higher energy costs would be devastating to his business, said Ronald R. Lyons, president and CEO of Stewart Brothers Paint Co. in Alliance, Ohio, and a board member of the U.S. Chamber.

William Cunningham, an economist with the AFL-CIO, told the panel that organized labor is very concerned about job losses that could occur if the United States signs the treaty. "Energy-intensive industries would be hard hit," he said.

If a global climate treaty is signed by President Clinton, it still must be ratified by the Senate.

Clean-Air Rules

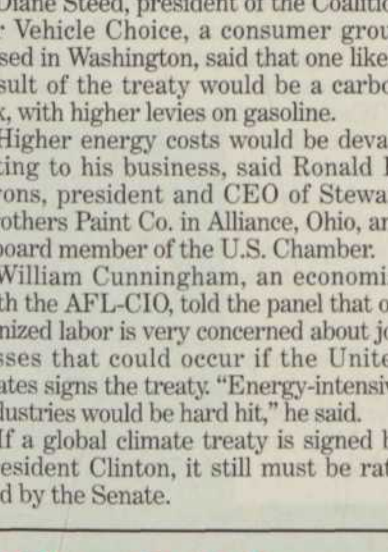


PHOTO: © DENNIS BRACK-BLACK STAR

Environmental Protection Agency Administrator Carol Browner and the U.S. Chamber's Harvey Alter recently debated the merits of new clean-air standards that the EPA was scheduled to issue July 19. The debate at the National Press Club in Washington also included former Bush administration counsel C. Boyden Gray of Citizens for a Sound Economy and Dr. Alfred Munser of the American Lung Association. Alter, the Chamber's manager of resources policy, said the standards could adversely affect local economic development.

International

Gonzalo Sanchez de Lozada, president of Bolivia, urges business leaders at a recent International Forum meeting at the U.S. Chamber of Commerce to invest in his South American country.

Small Business Institute

On-Line Catalog Available

Recent additions to the U.S. Chamber of Commerce Internet site include the resources catalog of the organization's Small Business Institute.

The institute's address on the World Wide Web is *www.usccsbi.com.*

The catalog contains more than 200 books, software titles, audiotapes, and video programs designed to help small-business owners. The on-line catalog was developed in cooperation with Federal Express using the company's FedEx™ VirtualOrder℠ system, which allows buyers to purchase products through a secure on-line ordering service and to choose a shipping mode.

Other products and services offered by the Chamber can be viewed on the business federation's Internet home page at *www.uschamber.org.*

The site also contains information, much of which is updated daily, on Chamber activities and the organization's position on legislative issues.

In a members-only section of the Chamber site, members can view in-depth information on the federation's policies and issues; read articles from *The Business Advocate;* respond to the Business Ballot poll; get information about their representative and senators in the Chamber's *1997 Congressional Handbook;* and view announcements of forthcoming Chamber events.

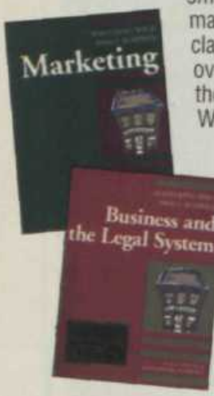
The members-only section address is *www.uschamber.org/member/password.html.* Use your member identification number to reach this area of the site. (If you don't know your Chamber ID number, call 1-800-649-9719.)

U.S. Chamber MemberBenefits

Here are some of the important products and services offered by the U.S. Chamber.

Small-Business Courses By Computer

Members of the U.S. Chamber will receive a discount on the per-course price for a series of small-business management classes offered over the Internet by the University of Wisconsin.



Titled "Mastering Your Small Business," the five-part series of courses covers marketing, finance, quality management, business and the legal system, and human resources.

Students can take the accredited courses and communicate directly with professors at the University of Wisconsin via their personal computers connected to the Internet. Students also may participate through the mail, by fax, or by electronic mail.

The cost per course for U.S. Chamber members is $149. The nonmember price is $249. There is a one-time registration fee of $36.

For more registration information, call 1-800-888-2571. For a preview of the classes' content, visit the Chamber's World Wide Web site at *www.uschamber.org/programs/sbi.*

Discounts For Airborne Express

Through a special arrangement between the U.S. Chamber and Airborne Express, Chamber members can save up to 37 percent on the cost of overnight shipments to nearly any destination in the United States and to more than 200 destinations in other countries served by Airborne. The company offers round-the-clock customer service and computerized package tracking.

To obtain the discounted service, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit on using Airborne Express.

Grass-Roots Service Guide

A free guide to the programs, services, and publications of the Chamber's Office of Membership Grassroots Management is available by calling 1-800-638-6582. In Maryland, call 1-800-352-1450. Ask for publication No. 0448.

Among other programs, the grass-roots office manages the Chamber's Grassroots Action Information Network (GAIN), the system used to alert members to action on pending legislation.

Toll-Free Help

If you have questions about your Chamber membership account, membership materials and publications, or member services, or if you want to join the Chamber, call the organization's toll-free number: 1-800-649-9719. If you're calling from Washington, D.C., or Maryland, call (202) 463-5330.

Business Seminars

The fall series of business seminars produced by the U.S. Chamber's Quality Learning Services (QLS) Department begins in September. The seminars are broadcast by satellite to downlink sites nationwide. The schedule for the series is:

Sept. 16—"Building Nimble Organizations for Turbulent Times," Daryl R. Conner, founder and CEO of ODR, Inc., a management consulting firm in Atlanta.

Sept. 30—"Putting Power, Punch and Pizzazz Into Your Presentations," Robert W. Pike, president of Creative Training Techniques International, of Edina, Minn., a company that conducts education and training programs.

Oct. 14—"The Phoenix: Creating Security in an Insecure World," James A. Belasco, professor of management, San Diego State University.

Oct. 28—"Connective Leadership: Managing Diversity and Interdependence," Jean Lipman-Blumen, author of *The Connective Edge: Leading in an Interdependent World* and co-director and co-founder of the Institute for Advanced Studies in Leadership at the Peter F. Drucker Graduate Management Center in Claremont, Calif.

Nov. 12—"On the Fast Track: How to Develop, Retain or Become a High-Potential Employee," William J. Morin, founder of WJM Associates, a management consulting firm in New York City.

Nov. 18—"Making Things Happen, Getting Things Done: Leading Teams Effectively," Peter Scholtes, founder of Scholtes Seminars and Consulting, a management consulting firm in Madison, Wis.

Dec. 9—"Overcoming the Urgency Addiction: Moving from Time Management to Life Leadership," Sean Covey, vice president of the Covey Leadership Center, a leadership and management training company in Provo, Utah.

The seminars will be presented jointly by QLS and the American Society for Training and Development in Alexandria, Va. The organization is a leader in the field of workplace training and development for professionals.

QUALITY LEARNING SERIES®

For more information on the series, including hosting a downlink site for a seminar, call QLS at 1-800-835-4730 or (202) 463-5940.

Studio Rentals

The U.S. Chamber's television facilities in Washington, D.C., can be rented for videoconferences, professional briefings, and other programs.

For more information, contact Suzi Montes de Oca at (202) 463-5921.

Retirement Plans Available

The U.S. Chamber of Commerce and Fidelity Investments are offering a package of retirement plans and services that are designed to be accessible, affordable, and convenient for U.S. Chamber members.

The products are intended primarily for businesses employing fewer than 100 workers. They include 401(k), Keogh, SEP-IRA, and SIMPLE—Savings Incentive Match Plan for Employees—plans.

Fidelity provides investment-management and record-keeping services as well as materials for employers to use in communicating with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7526).

Fidelity Investments®